8701

AN ANNOTATED INVENTORY OF FEDERAL BUSINESS SUBSIDY PROGRAMS IN THE UNITED STATES

by

Ann A. Michel
Larry I. Good
Terry Bolger
Ellen Sweet
W. Martin Taylor
and
Andrew R. Moroz

The authors are: Ann A. Michel, Associate for Energy and Natural Resources, The Government Research Corporation; Larry I. Good, Director of Tax and Budget Policy, The Government Research Corporation; Terry Bolger, Research Assistant, The Government Research Corporation; Ellen Sweet, Manager Information Services, The Government Research Corporation; W. Martin Taylor, Research Intern, The Government Research Corporation; and Andrew R. Moroz, Assistant Director, International Economics Program, The Institute for Research on Public Policy.

This study was funded by the Department of External Affairs. The study was undertaken during the Spring and Summer of 1986. The views expressed in this study are those of the authors and not the Department of External Affairs, The Government Research Corporation or The Institute for Research on Public Policy.

ANNOTATED INVENTORY OF U.S. BUSINESS SUBSIDY PROGRAMS

OUTLINE AND TABLE OF CONTENTS

Introduction 1

Agriculture 6

Agricultural Income Stabilization Programs 7
- Commodity Loan and Purchase Program
- Production Stabilization Programs
- Inventory Reduction Program
- Dairy Indemnity Program
- Emergency Conservation Program
- National Wool Act Payments
- Water Bank Program
- Agricultural Conservation Program
- Grain Reserve Program
- Milk Production Termination Program
- Great Plains Conservation Program
- Conservation Reserve Program

Indirect Federal Support of the Agricultural Sector 13
- Agricultural Research Service
- Cooperative State Research Service
- Agricultural Extension Service
- Economic Research Service
- Statistical Reporting Service
- World Agricultural Outlook Board
- Agricultural Marketing Services
- Soil Conservation Service

Agricultural Lending Programs 17
- Farmers Home Administration Loans and Loan Guarantees
  - Emergency Loans
  - Farm Labor Housing Loans and Grants
  - Farm Operating Loans
  - Farm Ownership Loans
  - Soil and Water Loans
  - Business and Industrial Loans
- Farm Credit System

Agricultural Export Enhancement Programs 22
- Foreign Agricultural Service
- CCC Export Financing

Crop Insurance

Below Cost Grazing Fees on Federal Lands

Subsidized Irrigation Water

Expensing of Certain Agricultural Expenditures

Aviation 27

Payments for Essential Air Services
Federal Air Traffic Control Expenditures
Airport Improvement Program
Aviation Insurance Revolving Fund

Defense and Aerospace 30

Defense Procurement
Science and Technology Program
Defense Advanced Research Projects Agency
Independent R&D Program
Bid and Proposal Reimbursement Program
Manufacturing Technology Program
Industrial Modernization Incentives Program
Defense Production Act
Foreign Military Sales Programs
NASA Expenditures, R&D, and Procurement
Completed Contract Method of Accounting

Fishing 38

Fisheries Loan Fund
Fishermen's Contingency Fund
Fishing Vessel and Gear Damage Compensation Fund
Fishermen's Guaranty Fund
Fishing Vessel Obligation Guarantees
Fishery Development and Utilization Grants (Saltonstall/Kennedy Grants)

Shipping/Ship Building 42

Operating Differential Subsidies
Construction Differential Subsidies
Federal Ship Financing Guarantees
Cargo Preference
Maritime Research and Development Grants
U.S. Coast Guard Services
Merchant Marine Capital Construction Fund
Construction Reserve Fund
U.S. Army Corp of Engineers Navigational Activities

Community, Regional, and Urban Development Programs 48

Economic Development Administration
Urban Development Action Grants
Community Development Block Grants
Urban Mass Transit Grants
Appalachian Regional Commission
Tennessee Valley Authority
Industrial Development Bonds

Small Business 54

Economic Injury Disaster Loans (EIDL)
Physical Disaster Loans
Loans for Small Businesses
Small Business Loans
State and Local Development Company Loans
Bond Guarantees for Surety Companies
Small Business Energy Loans
Handicapped Assistance Loans (HAL)
Small Business Investment Companies
Currency Fluctuation Economic Injury Loans
Certified Development Company Loans

Trade Enhancement, Duty, and Tariff Programs 60

Trade Adjustment Assistance
U.S. Foreign Trade Zones
Tariff Treatment on Reimport of U.S. Product (TSUS 807)
Department of Commerce Export Promotion and Trade Development Services
Export Import Bank
Overseas Private Investment Corporation (OPIC)
Export Incentives - The Foreign Sales Corporation
Export Trading Companies

Energy 67

Rural Electrification Administration
(Also see the Tennessee Valley Authority)
Federal Power Marketing Administrations
Uranium Enrichment Program
Clean Coal Technology Program
Energy Research and Development
Federal Energy Leasing Programs
Alcohol Fuels Program

Energy (continued)

U.S. Synthetic Fuels Corporation
Natural Gas Price Controls
Geological Survey
Tax Credit for Fuels from Nonconventional Sources
Energy Tax Credits
Alcohol Fuels Tax Credit and Related Exemptions to Excise Tax
Intangible Drilling and Development Costs for Oil and Gas
Oil and Gas Depletion Allowance
Deduction for Tertiary Injectants

Mining 81

Capital Gains Treatment of Royalty Income From Coal and Domestic Iron Ore
Hard Minerals - Depletion
Expensing of Mining Exploration and Development Costs
Reclamation Costs for Mining and Solid Waste
Bureau of Mines

Timber 85

Forestry Incentive Program
Below-Cost Sales of Federal Lumber
Capital Gains Treatment for Timber
Capital Amortization and Tax Credit for Reforestation Expenses

Banking and Financial Institutions 88

Federal Reserve Discount Window
Federal Deposit Insurance Corporation
Deductions for Bad Debt Reserves for Commercial Financial Institutions

Railroads 90

Amtrak Grants
Railroad Rehabilitation and Improvement - Guarantee of Obligations
Railroad Rehabilitation and Improvement - Redeemable Preference Share Notes

Generally Available Programs 92

National Flood Insurance Program
Federal Crime Insurance Program
Subsidized Postage
Job Training and Partnership Act
Minority Business Development Agency

Generally Available Programs (continued)

Targeted Job Tax Credit
Depreciation Deductions and Investment Tax Credit
Research and Experimental Tax Credit
Expensing of Research and Experimentation Expenditures
Possessions Tax Credit
Convention Attendance Deduction

Culture and the Arts 102

National Foundation for the Arts and Humanities
Corporation for Public Broadcasting
Smithsonian Institution

Bibliography

Appendices

A. Program Characteristic Chart
B. Program Funding Chart
C. Glossary of Key Federal Agencies
D. Acronyms for Key Agencies and Programs
E. Organizational Charts for Federal Agency
F. Federal Expenditures by State

INTRODUCTION

Purpose and Scope

The purpose of this report is to identify and describe U.S. federal programs that subsidize or enhance the competitiveness of U.S. business. We have attempted to provide a comprehensive listing of both direct expenditure and tax benefit programs. However, programs that assist the domestic housing industry, including the vast array of federal lending programs for individual homebuyers, have been purposely excluded. As a general rule programs offering nonfinancial assistance to businesses, such as information services, technical advice, or counseling, also were excluded unless these programs were of significant value to industry or had a significant impact on trade. State programs are discussed only if they are conduits for federal dollars.

Sources and Methodology

The universe of government programs is constantly changing as Congress creates new programs, eliminates unnecessary programs, and alters funding levels. This report, therefore, should be regarded as a "snapshot" view of programs in place at the time the report was written.

Programs were identified through an in-depth review of the U.S. Tax Code, federal budget documents, and reference books and catalogues that describe the functions of government agencies. A complete listing of sources used is found in the bibliography. Much of the information used in describing programs, estimating program costs, and quantifying subsidies came from documents prepared by the U.S. Congressional Budget Office (CBO) and the U.S. General Accounting Office (GAO).

Funding Information. Information on funding levels for subsidy programs was obtained primarily from the detailed appendix and other special budget analyses the President submits to Congress as part of his annual budget request. Whenever possible, we have provided both the amount of "budget authority" and the amount of "outlays" for each program in a given fiscal year. Budget authority is the amount of spending for a program which Congress has approved through its appropriations process. It can be viewed as a measure of political sentiment towards the program. Outlays are the amounts actually spent during a fiscal year. A program's annual budget authority and outlays can differ markedly, particularly in programs which use multi-year contracting procedures, such as defense contracts. For some programs, particularly those operated by a federal corporation, revenues may come from sources other than a congressional appropriation. For most of these programs we provide the total payment figure rather than the budget authority or outlay figures. Loan guarantees represent a contingent liability for the federal government and do not require an outlay unless the borrower defaults on the guaranteed loans. Therefore, the outlay figure is less important than the value of the guaranteed loans and the size of the government's contingent liability. For most programs which provide both direct and guaranteed loans, we have used the value of the new direct loans plus the value of the new guaranteed loans as the annual funding figure. The value of tax benefits is presented in the form of a "tax expenditure" figure

which is an estimate of the revenue forgone. A second figure is presented in parenthesis on the program funding chart which is the amount of money that would be required to provide the same benefit through a direct expenditure rather than a tax benefit program. No estimates are available for tax programs with a total budgetary impact of less than $10 million.

Funding information for fiscal years 1983-1986 is summarized in Appendix B at the end of the report. Overall, the numbers in this report are intended only to give an approximate indication of the amount of money a subsidy program costs the government. The figures in the report are not intended as a measure of the economic value of a subsidy to its recipients.

The report categorizes the programs on the basis of the type of industry the program is designed to assist. Recognizing that these programs could also be broken down on the basis of the administering federal agency, the type of subsidy provided, or the purpose of the program, this information is summarized at the beginning of each program description. It is also summarized for each program discussed in the report in Appendix A.

Types of Subsidies. Although it is difficult to "label" the various types of assistance provided, we have used the following categories to describe the type of subsidy:

- Grants - Programs which provide direct monetary assistance to a business for the purpose of enhancing its economic viability. Examples include programs aiding the commercial shipping industry, certain air carriers, and farmers. Grants generally do not have cost recovery provisions.
- Direct Loans - Programs in which the federal government directly lends money to a business, possibly at concessionary interest rates, for instance, Small Business Administration Loans.
- Loan Guarantees - Programs in which the federal government guarantees loans to a business that are provided through normal private sector channels.
- Government Insurance - Programs in which the government insures a business against certain types of losses. In some instances the government collects premiums like a private insurance company would, albeit at subsidized rates, such as the Federal Crop Insurance Program. In other instances, including several programs that aid the commercial fishing industry, no premiums are collected. The programs are funded through government revenue sources.
- Below-Cost or Free-of-Charge Service - Programs which provide services, commodities, or production inputs to a business at less than their fair market value. Examples include subsidized irrigation and power programs.
- Government Purchases or Price Guarantees - Programs in which the government supports or assists a business through direct purchases or price guarantee arrangements where the government is a purchaser of last resort or guarantees a specified price through deficiency payments. Examples include defense procurement procedures, the Defense Production Act, and agricultural price support programs.
- Tax Expenditures - Programs in which the government provides financial assistance to a business through a tax benefit, deduction, or credit rather than a direct cash payment.

- Duty Remission Programs - Programs which provide preferential duty treatment to U.S. exporters or importers under certain circumstances, such as Foreign Trade Zones or drawback.
- Price Regulation and Cartel - Programs that benefit an industry by enforcing a restrictive marketing arrangement, such as agricultural marketing orders, or that regulate the price of commodities, such as natural gas price controls.

Purposes of Subsidies. The vast array of subsidy programs has been created by Congress for a variety of reasons. The purpose of some programs is simply to bolster a declining industry and preserve jobs. Other programs are intended primarily to enhance national security, to increase energy production, to develop the nation's intrastructure, to encourage certain actions on the part of businesses (such as environmental responsibility, innovation, hiring of minorities, etc.), or to enhance the competitiveness of U.S. industries in the world market. Many of the programs are intended to assist the economic development of geographic regions which are lagging in terms of growth. While it is difficult to identify the purposes of every program, the report has categorized the purposes of U.S. subsidy programs as:

- Income Support (IS) - programs intended to maintain, stabilize, or increase the income of producers. Agricultural price support programs are the most important program of this type.
- Operating Cost Reduction (OCR) - programs intended to reduce the current costs of producing and supplying output to the market or, in one form or other, lower the cost of material and service inputs for a business. Examples include subsidized irrigation water and grazing rights sold to farmers by the federal government.
- Sectoral Development Through Subsidization of Capital Costs (SDK) - programs designed to foster the competitiveness and development of industries by subsidizing the cost of plant and equipment. Defense programs designed to bolster the industrial base for defense readiness, such as the Mantech program, are examples.
- Sectoral Development Through Subsidization of Research and Development (SDR) - programs designed to foster competitiveness and development of industries by subsidizing research and development. The Defense Department's Industrial Modernization Program is an example.
- Small Business Development (SBD) - programs intended to assist and encourage small businesses.
- Adjustment to Competition (ADJ) - programs intended to assist industries in adjusting to increased foreign competition and other economic development. Programs which assist the U.S. shipping and shipbuilding industry are intended for this purpose.
- Emergency Support Programs (ESP) - programs intended to assist businesses in times of unforeseen developments such as natural disasters and other nonmarket related events.
- Regional and Community Development (RCD) - programs intended to promote economic development of particular regions and/or communities, such as the Appalachian Regional Commission.

- Social Development (SD) - programs intended to assist disadvantaged groups and/or to provide free or below cost social services to individuals and groups in society. The Minority Business Development Agency is an example.
- Infrastructure Support (SIS) - programs intended to develop or improve socioeconomic infrastructure from which business benefits directly, such as federal support for airport improvements.
- Cultural Maintenance and Promotion (CMP) - programs intended to support and promote cultural activities and industries, such as the National Foundation for the Arts and Humanities.
- Export Promotion - programs intended to promote and support exports, such as the Export-Import Bank of the United States.
- National Security (NS) - programs intended primarily to enhance the national security of the United States.

Major Findings. Upon examining the inventory of U.S. assistance to business, four generalizations can be drawn:

1. **Subsidy programs provide disproportionate benefits to certain categories of industry.** Federal expenditures to subsidize industry are not equitably distributed among the various sectors of the economy. The agricultural industry is the most heavily subsidized. Fishing, shipping, and other modes of transportation receive far more than their fair share. Resource extractive industries are heavily subsidized through the tax code. These disparities were quantified by a 1984 Congressional Budget Office Report entitled Federal Support For Business, which concluded that the agricultural sector receives the most federal aid, both absolutely and in relation to the importance of the industry measured on a value-added basis. The report found that the agricultural sector received about half of the direct aid ($7.7 billion in 1984), utilities received the most credit aid ($3.7 billion), mining and financial institutions have the largest targeted tax breaks, while manufacturing and services get the most benefit from generally available tax benefits. (Note: the CBO report's methodology and definition of subsidy differ somewhat from ours. Their findings are presented as an illustration of this point, but their estimates of total aid received by each industry are different than those calculated on the basis of data in this report.)

2. **Direct spending programs are less important as a means of assisting business than tax and credit programs.** Overall, programs that make direct payments to industries are less significant as a means of subsidy than loan guarantee or tax benefit programs. The emphasis on reducing the federal budget has contributed to a shift away from direct payments and direct loans to a greater use of loan guarantees and other forms of assistance which minimize the outlay of federal funds. Moreover, Congress is reevaluating the cost-sharing provisions of many grant programs to encourage private industry to pay a greater portion of projects undertaken with federal financial assistance. Also, Congress is beginning to examine ways of recovering the federal investment in infrastructure projects that benefit certain industries.

3. **Expenditures for many of the subsidy programs have declined significantly in the past five years and further cuts are possible.** In recent years Congress has been increasingly concerned with the size of the federal budget deficit. It is

intensifying its scrutiny of all expenditures—especially domestic discretionary expenditures. Also, the Reagan Administration has sought the elimination of many business subsidy programs because of (1) a belief in a free-market economy, (2) an interest in privatizing federal programs, (3) concern over the deficit, and (4) support for reform of the tax code. The Gramm-Rudman process also will reduce spending levels for many of the business subsidy programs, although there are still some uncertainties about how to make the process work in light of the Supreme Court's decision.

With all these budget pressures, business subsidy programs are increasingly viewed as luxuries that can no longer be afforded. With the possible exception of programs in the defense area, many of these programs are vulnerable to further reductions. In examining the funding history of subsidy programs one repeatedly finds situations in which the Administration is recommending the discontinuation of a program, but a handful of vocal congressional supporters are able to rescue the program, although perhaps at slightly reduced funding levels.

The pending tax reform bill also has major implications for business subsidies. While the final outcome of tax reform is unknown as this report is being written, we have identified those programs which could be affected. The tax reform effort has the potential for dismantling major portions of the tax code which subsidize business.

4. **Political factors are often the real basis for distributing subsidies.** While subsidy programs have a variety of purposes, politics is often as much of a factor as economics. One reason agriculture receives so much support is because rural states has disproportionate representation in Congress, particularly in the Senate. Maritime industries benefit from an antiquated congressional committee system. Other programs are historical anachronisms that have survived because their beneficiaries become a political constituency supporting the continuation of the program. The Tennessee Valley Authority is a vestige of the Great Depression; the Appalachian Regional Commission is a survivor of the 1960s war on poverty; federal water and power programs were created originally to encourage homesteading in western states during the early part of the century. Once in place, these programs are difficult to dismantle, even if their original purpose is no longer valid.

Each of the programs described in the inventory has a unique purpose and political reason justifying its existence. While the primary objective of the report is to present a brief factual summary of the programs, we have tried to touch on some of the important political aspects of the programs when possible.

AGRICULTURE

Introduction

Agriculture is the most subsidized sector of the U.S. economy. The U.S. Department of Agriculture spends approximately $25 billion annually on price support, credit, and insurance programs aimed at stabilizing farm income. Almost $2 billion is spent on programs that indirectly assist the nation's agricultural producers, such as agricultural research, extension services, marketing and economic intelligence services, and plant and animal health programs.

The major income support programs are administered by a branch of the Department of Agriculture known as the Agriculture Stabilization and Conservation Services, which works through the Commodity Credit Corporation. The Commodity Credit Corporation is, in effect, the central bank for the government's farm programs, including price support programs, agricultural export programs, and some agricultural lending programs.

The federal government is a major force in agricultural lending through the Farmers Home Administration (which provides direct loans and loan guarantees to the least credit worthy agricultural lenders) and the Farm Credit System (a federally chartered network of lending institutions which was originally capitalized by the federal government but is now owned cooperatively by the system's owner-borrowers and operates largely without federal assistance). Together these two systems accounts for almost half of the nation's agricultural debt.

Government agricultural programs are expensive, often unsuccessful, and contradictory. For example, acreage limitation agreements seek to reduce production while other programs, such as subsidized irrigation water, are a stimulus to production. Some programs aim to increase exports while other programs undercut U.S. farmers' export potential by encouraging foreign agricultural productivity or propping up U.S. farm prices above the world market price.

The extent of government involvement in agriculture is in part a result of one of America's most prevalent and sacred political myths—the "family farm." The American public and American politicians consider the family farm an important part of the nation's identity, history, and social fabric. Although this myth is a gross exaggeration in a nation as industrialized as the United States, it continues to have significant rhetorical appeal and helps explain why even many market-oriented politicians support price and income support programs for farmers.

The system of congressional representation in the United States also reinforces the political strength of agricultural interests. In the United States Senate each state has two representatives regardless of population. As a result, scarcely populated rural states are disproportionately represented in the Senate, adding to the level of political support for agricultural programs.

Critics blame the nation's agricultural programs for perpetuating the programs they were designed to prevent. But faced with a severely troubled agricultural sector, Congress continues to resort to the "quick fix" of more of government aid, rather than requiring American farmers to adjust to the realities of the agricultural marketplace.

AGRICULTURAL INCOME STABILIZATION PROGRAMS

Commodity Loans and Purchases Program
(Price Supports)

Agency:	**USDA**
Industry:	**Agriculture**
Type of Subsidy:	**Direct Loans and Government Price Guarantees**
Purpose:	**IS**
FY85 Funding:	**$12.9 billion**

The Agricultural Stabilization and Conservation Service, working through the Commodity Credit Corporation, administers a program of price support loans and purchases to stabilize, support and protect farm income.

Price support "loans" are made to farmers, who use their crops valued at a government-set target price as collateral. If the market price for the crop rises above the target price, the farmer pays off the loan and markets his crop. If market prices fall below the target price, the farmer defaults on the loan, forfeiting his crop to the government, which in effect has "purchased" the crop for the target price.

This type of loan, known as a nonrecourse loan, functions as a floor for market prices. The government serves as the buyer of last resort. The target price established for loan rates is less than the target price used under direct payment programs as the basis for deficiency payments.

Feed grains, wheat, rice, rye, soybeans, honey, upland cotton, extra-long grain cotton, dairy products, peanuts, tobacco and sugar are eligible for this program.

Loans are available in amounts ranging from $50 to $76 million. The average loan amount is $13,771. Over the history of the program, the allocation of expenditures between loans and purchases has varied depending on the relation of the market price to the target price. The Reagan Administration has pledged to use its authority under the 1985 Farm Bill to set future loan rates more in line with market clearing price levels.

The 1986 loan rates are $1.56 per bushel for barley, $1.92 for corn, $.99 for oats, $1.82 for sorghum, $1.63 for rye, $2.40 for wheat, and $.55/cwt for rice.

Direct Producer Payments
(billions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Loans	13.6	5.13	10.1	16.5
Purchases	7.80	7.80	2.77	2.30

Production Stabilization Programs (Deficiency Payments)

Agency: USDA
Industry: Agriculture
Type of Subsidy: Government Price Guarantee
Purpose: IS
FY85 Funding: $7.13 billion

The Agricultural Stabilization and Conservation Service, working through the Commodity Credit Corporation, administers production stabilization programs for rice, cotton, feed grains, and wheat. In exchange for agreeing to reduce their plantings by a specified percentage, participating farmers become eligible for deficiency payments when the market price falls below a government-established target price. The target price used as the basis for deficiency payments historically has been higher than the target price used for commodity loans which serves as the floor price. The 1985 Farm Bill froze the higher price standard for deficiency payments for the 1986-1987 crop year, but will decrease these target prices over the subsequent four crop years to bring them more in line with loan rates and prevailing market conditions. Further, farmers will no longer have to plant their total crop base to qualify for full deficiency payments thus partially decoupling planting decisions from program benefits. 1986 target prices (per bushel) are $2.60 for barley, $3.03 for corn, $1.60 for oats, $2.88 for sorghum, $4.38 for wheat, and $.81 per pound for cotton.

Anyone may not receive in total more than $50,000 in deficiency payments from the cotton, wheat, rice and feed grain stabilization programs, although there are some difficulties in applying this limit where more than one individual is receiving payments on the same farm or for farmers who are shareholders in more than one corporately owned farm.

Direct Producer Payments
(billions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Feed Grains	1.47	1.66	3.00	6.24
Wheat	1.50	1.70	2.00	2.90
Rice	0.50	0.33	0.50	0.86
Cotton	1.20	0.48	1.00	1.50
Dairy	—	0.33	0.63	0.25

Inventory Reduction Program

Agency: USDA
Industry: Agriculture
Type of Subsidy: Price Guarantees
Purpose: IS
FY85 Funding: NA—new program

The Inventory Reduction Program is the successor to the old Payment-in-Kind (or PIK) program. The Inventory Reduction Program provides producers who reduce their acreage by half and agree to forgo nonrecourse loans and deficiency payments with a certificate in lieu of a deficiency payment that can be redeemed for any one of the commodities covered by the deficiency payment programs—wheat, rice, feed grains, and cotton. The value of the certificate is computed the same way as a deficiency

payment. The certificate payments are referred to an inventory reduction payments, or producer option payments. The purpose of the program is to provide income support to farmers while also decreasing production levels and reducing the government's surplus crop inventory.

Dairy Indemnity Program

Agency:	**USDA**
Industry:	**Dairy**
Type of Subsidy:	**Government Insurance**
Purpose:	**ESP**
FY85 Funding:	**$33,000**

The Dairy Indemnity Program, administered by the Agricultural Stabilization and Conservation Service, is designed to make payments to dairy farmers and manufacturers of dairy products who, through no negligence of their own, are unable to market their product because of contamination by pesticides or other chemical or hazardous substances. The program began in 1964. In FY84, dairy farmers received payments totaling $2.4 million. In FY85, five farmers received a total of $32,523.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	7.00	1.80	0.100	0.099
Outlays	6.10	2.40	0.033	0.160

Emergency Conservation Program

Agency:	**USDA**
Industry:	**Agriculture**
Type of Subsidy:	**Grants**
Purpose:	**ESP**
FY85 Funding:	**$11.4 million**

The Emergency Conservation Program, administered by the Agricultural Stabilization and Conservation Service, provides assistance to farmers on a cost-sharing basis for emergency soil and water conservation measures necessitated by natural disasters, such as floods and hurricanes. The program was authorized by the Agricultural Credit Act of 1978.

The program is limited to new conservation problems that if not treated will impair the land, affect productivity, represent unusual damage, and require federal assistance to return the land to productive use. The government will pay up to 64 percent of costs up to $62,500, 40 percent of costs up to $125,000 and 20 percent of costs over $125,000—not to exceed more than a total cost of $200,000 per individual. In FY84, assistance was provided to approximately 9,400 farms, and in FY85 approximately 6,600 farms were assisted. In FY86, the program is expected to rehabilitate approximately 220,000 acres of farm land.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	—	19.0	—	—
Outlays	9.80	15.5	11.4	10.0

National Wool Act Payments

Agency: USDA
Industry: Agriculture
Type of Subsidy: Grants
Purpose: IS
FY85 Funding: $102.5 million

The National Wool Act Payment program, administered by the Agricultural Stabilization and Conservation Service, makes direct payments to domestic wool and mohair producers when required to supplement farm income. The program was created by the National Wool Act of 1954. The stated objective of the program is to encourage increased domestic production of wool at prices fair to both producers and consumers in a way that has the least adverse effect on domestic and foreign trade and to encourage producers to improve their marketing of wool and mohair. One of the early rationales for the program was to assure a secure domestic supply of wool, which prior to the advent of synthetic fibers, was considered a strategic commodity essential to defense readiness. More recently, the program has served primarily as an income supplement program. Critics doubt that the payments encourage much additional wool production, since most sheep ranchers make their production decisions based on lamb, not wool, prices. The statute provides that total payments under this program cannot exceed an amount equal to 70 percent of import duties on wool and wool products.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Total Payments	88.2	123.2	102.5	113.0

Water Bank Program

Agency: USDA
Industry: Agriculture
Type of Subsidy: Grants
Purpose: IS
FY85 Funding: $9.8 million

The Water Bank Program, administered by the Agricultural Stabilization and Conservation Service, makes direct payments to landowners who agree to preserve habitat for migratory waterfowl. The program's objectives are to conserve surface waters, improve the nation's wetlands and secure environmental benefits for the nation. But the program also serves to enhance farm income and reduce the amount of acreage under production, helping to stabilize agricultural output and prices. The program was authorized by the Water Bank Act of 1970. The funds are disbursed based on 10-year agreements with land owners. Between 1975 and 1985, about 4,500 agreements were

signed covering approximately 560,000 acres. The average payment per acre is slightly more than $15.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	8.80	8.80	8.80	8.75
Outlays	10.8	10.0	9.80	10.0

Agricultural Conservation Program

Agency: USDA
Industry: Agriculture
Type of Subsidy: Grants
Purpose: SDK
FY85 Funding: $181.7 million

The Agricultural Conservation Program provides financial assistance on a cost-sharing basis to farmers or ranchers to help pay for the costs of approved land and water conservation improvements intended to control erosion and sedimentation, improve water quality and improve production. The program, administered by the Agricultural Stabilization and Conservation Service, pays up to 75 percent of costs. The payments average is approximately $1,000 per participant.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	190.0	190.0	190.0	188.8
Outlays	179.7	180.0	181.7	206.0

Grain Reserve Program

Agency: USDA
Industry: Agriculture
Type of Subsidy: Grants
Purpose: IS
FY85 Funding: $307 million

The Grain Reserve Program pays farms who produce crops with loans provided through the Commodity Credit Corporation (CCC) to store rather than sell their crops until the loan has matured (three years) unless the market reaches the target level. All producers or approved cooperatives having CCC loans on wheat, corn, barley, oats, or sorghum are eligible. The purpose of the program is to insulate sufficient quantities of grain from the market to increase prices to farmers, to improve farm income, and to assist farmers in the orderly marketing of their crops. Under a new Special Producer Storage Loan Program, mature grain reserve loans may be renewed for an additional year and producers receive the annual storage payment at the beginning of the year at the same rates as the normal reserve program, but can repay the loan at any time during that one year period.

Through the end of FY85, 685 million bushels of wheat, 109 million bushels of barley, 130 million bushels of sorghum, 400 million bushels of corn, and 3 million bushels of oats were in the reserve.

In a related program, the CCC has the authority to make secured loans for the purchase, construction, or remodeling of facilities for storage and care of commodities on the farm.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Producer Storage Payments	1,112	278.0	307.0	611.5

Milk Production Termination Program

Agency: USDA
Industry: Agriculture
Type of Subsidy: Government Purchase
Purpose: IS
FY85 Funding: NA—new program

The 1985 Farm Bill, passed in December 1985, created a new program designed to reduce the size of dairy herds to cut back on overproduction of dairy products and help stabilize dairy prices. Under the program, the Department of Agriculture will enter into contracts with producers, paying them to terminate milk production for a period of three, four, or five years by selling for export or slaughtering all dairy cattle owned by the producer. The total number of cows slaughtered under the program (above the normal rate) cannot exceed 7 percent of the national dairy herd per year. The Farm Bill mandates the program only for an 18-month period. Continuation through 1990 is at the discretion of the Secretary of Agriculture. To minimize the adverse effect of this program on meat prices and the livestock industry, the Farm Act authorizes the government to purchase 400 million pounds of red meat during the 18-month period.

Great Plains Conservation Program

Agency: USDA
Industry: Agriculture
Type of Subsidy: Grants
Purpose: SDK
FY85 Funding: $20.9 million

The Department of Agriculture's Soil Conservation Service administers the Great Plains Conservation Program, a program designed to promote conservation and agricultural stability in the 10-state Great Plains area (Colorado, Kansas, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, and Wyoming). The program was authorized by a 1956 amendment to the Soil Conservation and Domestic Allotment Act. The program's activities include technical advice and cost-sharing assistance for conservation practices. Financial assistance is provided under three-to-10-year contracts with farmers or ranchers in designated counties to help make needed land use adjustments and install conservation measures that are specified in conservation plans called for by the contracts. The program will pay between 50 and 80 percent of the cost of the conservation improvement, depending on the urgency of the project. The amount of assistance can range up to a limit of $35,000 per farm. In FY84 the average was

$15,594. During that year, new contracts covered 1.7 million acres on 791 farms and ranches and a total of 5,995 contracts were in force at the end of that fiscal year.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	21.3	21.3	21.5	21.4
Outlays	21.2	21.0	20.9	21.1

Conservation Reserve Program

Agency: USDA
Industry: Agriculture
Type of Subsidy: Grants
Purpose: IS
FY85 Funding: NA—new program

The 1985 Farm Bill provides that the Department of Agriculture, using CCC funds, shall carry out a Conservation Reserve Program by entering into 10-to-15-year contracts with owners of highly erodible cropland to assist them in conserving and using soil and water resources of the farm. In addition to the program's conservation objectives, the program also helps to cut back on crop surpluses by taking land out of production and provide income support to farmers. In exchange for agreeing to place land in the reserve, farmers receive cost-sharing assistance (up to 50 percent of the cost of planting cover on the conservation acreage), rental payments, and technical assistance. Rental payments are determined using a bid system. In total, rental payments cannot exceed $50,000 per person per year. No more than 25 percent of the cropland in a given county may be placed in the reserve unless it is determined that doing so will not harm the local economy. The program is mandated for crop years 1986-1990. The act calls for a minimum of five million acres to be put in the reserve in 1986 and 10 million in 1987.

INDIRECT FEDERAL SUPPORT OF THE AGRICULTURAL SECTOR

Agricultural Research Service

Agency: USDA
Industry: Agriculture
Type of Subsidy: Free of Charge Services
Purpose: SDR
FY85 Funding: $487 million

The Agricultural Research Service, a division of the Department of Agriculture, conducts research related to agricultural productivity, safety, and economics. Its specific research programs include research on soil and water conservation as well as other aspects of natural resource management, research to improve plant and animal productivity, research to improve the processing and delivery of agricultural commodities, research on human nutritional requirements, and research on integrated systems for producing, processing, and marketing agricultural products.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	460.0	478.0	492.9	499.8
Outlays	459.8	481.0	487.3	474.9

Cooperative State Research Service

Agency: USDA
Industry: Agriculture
Type of Subsidy: Free of Charge Services
Purpose: SDR
FY85 Funding: $243 million

The Cooperative State Research Service is the federal component in a nationwide system of agricultural research programs conducted jointly by the Department of Agriculture and various state agricultural institutions. The federal government provides grants to state institutions to supplement their own revenues. The agricultural experiment stations located at the land-grant universities in each of the states and many of the territories are an important aspect of this system. Research also is conducted at other universities and by individual scientists.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	244.9	247.6	304.0	278.9
Outlays	220.5	239.5	243.6	278.9

Agricultural Extension Service

Agency: USDA
Industry: Agriculture
Type of Subsidy: Free of Charge Services
Purpose: RCD
FY85 Funding: $338 million

The Agricultural Extension Service is a nationwide system of out-of-school applied educational programs in rural areas funded by the federal government and the states. The programs are focused on such subjects as home economics, youth "4-H" programs, community development needs, and agricultural education programs. Federal funds are provided to the states on the basis of population and special needs. Most of the funds are used to employ extension workers who assist residents of agricultural communities by providing professional advice on production and market matters as well as assistance with other community and family needs.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	328.6	334.3	343.7	342.7
Outlays	322.7	339.5	338.0	342.9

Economic Research Service

Agency: USDA
Industry: Agriculture
Type of Subsidy: Free of Charge Service
Purpose: SDR
FY85 Funding: $45 million

The Economic Research Service performs agricultural economic and other social science research, outlook forecasting, policy analysis, and data collection and management related to U.S. and international agriculture, food, natural resources, and rural America.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	38.9	44.3	47.1	46.0
Outlays	36.8	40.9	45.1	46.6

Statistical Reporting Service

Agency: USDA
Industry: Agriculture
Type of Subsidy: Below Cost Services
Purpose: SDR
FY85 Funding: $56 million

The Department of Agriculture's Statistical Reporting Service provides the official national and state estimates of acreage yield, crop and stock production, and inventory values of livestock items. About 300 reports are issued annually covering approximately 120 crops and 45 livestock products. In addition to this crop and livestock estimates function, the service conducts statistical research designed to improve estimating and forecasting techniques. These activities were authorized by the Agricultural Marketing Act of 1946.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	51.8	54.4	58.2	58.7
Outlays	49.4	55.5	56.5	58.6

World Agricultural Outlook Board

Agency: USDA
Industry: Agriculture
Type of Subsidy: Free of Charge Services
Purpose: SDR
FY85 Funding: $1.6 million

The World Agricultural Outlook Board was established to provide a single focal point for economic intelligence related to domestic and foreign food and agriculture. The board conducts daily market surveillance activities and special analysis of international and domestic agricultural developments. The program also coordinates all the

Agriculture Department's activities related to weather and climate monitoring and remote sensing, including the LANDSAT satellite, which the Administration has recommended privatizing.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	1.40	1.50	1.60	1.60
Outlays	1.30	1.50	1.60	1.60

Agricultural Marketing Service

Agency: USDA
Industry: Agriculture
Type of Subsidy: Below Cost or Free Services and Cartel
Purpose: IS
FY85 Funding: $21.9 million

The Agricultural Marketing Service, established in 1972, assists producers of agricultural commodities by offering a variety of marketing service. It has several functions which include: (1) providing information to farmers on supplies, demand, prices, location, and quality of products, this includes daily reports on over 400 commodities; (2) developing grade standards for agricultural commodities and conducting various grading, testing, and inspection services; (3) developing specifications for government food procurement; (4) administering regulatory programs to ensure against fraudulent or unsafe marketing practices; and (5) overseeing certain research activities and promotional programs designed to improve the competitive position of some U.S. commodities.

Perhaps the most significant function of the Agricultural Marketing Service is the administration of government marketing orders and agreements. Federal marketing orders are legally binding plans designed and operated by growers and handlers of certain crops, including some fruits, vegetables and specialty crops, such as hops and nuts. These plans are approved and enforced by the Secretary of Agriculture. Their primary goal is to establish orderly marketing conditions by alleviating supply/demand imbalances. Forty-seven marketing orders are in effect, covering 33 commodities. The commodities under marketing orders include more than half of all the fruit and specialty crops and 15 percent of all vegetables grown in the United States. In total, the crops covered by marketing orders were worth about $5.6 billion to growers in 1984. Some of the provisions of marketing orders are relatively innocuous, such as quality requirements. But the real purpose of marketing orders is to restrict the supply of products going to market. This is done in some instances through producer allotments determined by the industry association. In other instances, market share is prorated among growers based on weekly determinations of supply in order to prevent price fluctuations.

The marketing order program is an outgrowth of the low farm prices during the Depression. Market orders were first instituted in 1933 as a temporary program and then continued by the Agricultural Marketing Agreement Act of 1937. Critics of marketing orders claim that they amount to legalized cartels which hurt both producers and consumers, cause a great deal of waste and inefficiency, and are an unwarranted intrusion of government into the marketplace. But marketing orders protect farm income for producers of many commodities that are not covered by other types of price support

programs. They also are a significantly less expensive way for the government to bolster farm prices because the consumer, not the government, pays the price of marketing agreements.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	32.9	30.9	30.9	31.8
Outlays	8.20	38.3	21.9	32.9

Soil and Conservation Service

Agency: USDA
Industry: Agriculture
Type of Subsidy: Below Cost or Free Services
Purpose: SDK
FY85 Funding: $367.8 million

The Soil and Conservation Service is a branch of the Agriculture Department's Natural Resource and Environment Division. The Service was created under the authority of the Soil Conservation Act of 1935. The Service has responsibility for developing and carrying out national soil and water conservation programs in cooperation with farmers and state and regional agencies. The program is conducted primarily through technical assistance to local conservation districts. Among the types of assistance provided are soil surveys and soil mapping data, information on plant species and their role in conservation programs, studies on watersheds and river basins, assisting local governments in land and water resource planning, and assisting land owners in reclaiming abandoned mines. The Service also advises the Farmers Home Administration in making soil and water conservation loans and provides technical advise to other conservation assistance programs administered by the Agricultural Stabilization and Conservation Service, such as the Water Bank Program, the Agricultural Conservation Program, and the Rural Clean Water Program.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	335.9	355.0	364.9	364.2
Outlays	327.4	353.0	367.8	361.6

AGRICULTURAL LENDING PROGRAMS

Farmers Home Administration

The Farmers Home Administration (FmHA), an agency within the Department of Agriculture, provides credit for those in rural America who are unable to get credit from other sources at reasonable rates and terms.

The FmHA operates under the authority of the Rural Development Act of 1921 and Title V of the Housing Act of 1949. The FmHA currently holds about 15 percent of total outstanding farm debt. The FmHA lending system generally serves borrowers who are

less credit worthy than those who borrow from the cooperatively owned Farm Credit System or commercial banks.

FmHA makes loans from three revolving funds, the Agricultural Credit Insurance Fund, the Rural Housing Insurance Fund, and with funds derived from sales to the Federal Financing Bank of Certificates of Beneficial Ownership.

Applicant eligibility requirements usually stress:
1. Farm experience or training.
2. The legal capacity to incur the obligations of the loan.
3. The inability to obtain sufficient credit elsewhere at reasonable rates and terms.

The terms of FmHA loans are generally one year for crop loans and five to seven years for machinery. The interest rate on direct loans is determined by the cost of money. Currently, the rate for FmHA loans is 8 percent.

It should be noted that under the farm bill passed in December 1985, a farmer with a bank loan guaranteed by FmHA can get from a 1 percent to 4 percent reduction in his interest rate under the Loan Buy Down Program. Congress adopted this new credit aid program despite pleas from the Reagan Administration to narrow the mandate of FmHA by eliminating direct borrowing and cutting off new lending.

(billions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	7.30	7.90	9.50	NA

Emergency Loans

Agency: FmHA, USDA
Industry: Agriculture
Type of Subsidy: Guaranteed Loans
Purpose: ESP
FY85 Funding: $479 million

The main objective of this program is to assist farmers, ranchers, and agricultural operators with loans to cover losses resulting from major and/or natural disasters; for annual farm operating expenses; and for other essential needs necessary to return disaster victims' farming operations to a financially sound basis in order that they will be able to return to private sources of credit as soon as possible.

(billions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Value of Insured Loans	2.10	1.00	0.479	NA

Farm Labor Housing Loans and Grants

Agency:	**FmHA, USDA**
Industry:	**Agriculture**
Type of Subsidy:	**Grant, Guaranteed Loans**
Purpose:	**SDK**
FY85 Funding:	**$32 million**

This program is designed to help provide decent, safe, and sanitary low-rent housing and related facilities for domestic farm laborers.

The loans and grants may be used for construction, repair, or purchase of year round occupancy or seasonal housing, and for acquiring necessary land. Restrictions on the use of funds are that the housing must be of the practical type and must be constructed in an economical manner.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Loans	3.90	5.40	20.0	12.0
Grants	7.50	9.80	12.0	19.0

Farm Operating Loans

Agency:	**FmHA, USDA**
Industry:	**Agriculture**
Type of Subsidy:	**Guaranteed Loans**
Purpose:	**OCR**
FY85 Funding:	**$2.5 billion**

The program's main objective is to enable operators of family-sized farms through the extension of credit and supervisory assistance, to make efficient use of their land, labor, and other resources.

Loan funds may be used to (1) purchase livestock and other farm animals; (2) purchase farm, forestry, recreation, or nonfarm equipment; and (3) cover operating expenses for farm, forestry, recreation, or nonfarm enterprises.

Certain corporations, cooperatives and partnerships operating family-sized farms are now eligible for loans. However, they must meet most of the same eligibility requirements as the individual applicant.

(billions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Value of Loans Guaranteed	1.70	2.00	2.50	NA

Farm Ownership Loans

Agency:	**FmHA, USDA**
Industry:	**Agriculture**
Type of Subsidy:	**Guaranteed Loans**
Purpose	**SDK**
FY85 Funding:	**$700 million**

The main objective of this program is to assist eligible farmers and ranchers, including farming cooperatives, partnerships, and corporations through the extension of credit and supervisory assistance, to become owner-operators of family-sized farms.

Funds can be used to (1) enlarge, improve, and buy family farms; (2) refinance debt; (3) provide necessary water and water facilities; (4) provide basic soil treatment and land conservation measures; (5) construct, repair or improve necessary buildings.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Value of Loans Guaranteed	749.0	700.0	700.0	NA

Soil and Water Loans

Agency:	**FmHA, USDA**
Industry:	**Agriculture**
Type of Subsidy:	**Guaranteed Loans**
Purpose:	**SDK**
FY85 Funding:	**$28 million**

The main objective of this program is to facilitate improvement, protection, and proper use of farmland. It provides financing and supervisory assistance for soil conservation; water development, conservation and use; forestation; drainage of farmland; the establishment and improvement of permanent pasture; and the development of pollution control and abatement facilities on farms.

Loans for FY84 and FY85 were $12.5 million and $28 million respectively.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Value of Loans Guaranteed	12.2	12.5	28.0	NA

Business and Industrial Loans

Agency:	**FmHA, USDA**
Industry:	**Business and Industry**
Type of Subsidy:	**Guaranteed Loans**
Purpose:	**RCD**
FY85 Funding:	**$150 million**

The main objective of this program is to assist public, private, or cooperative organizations (profit or nonprofit), Indian tribes or individuals in rural areas to obtain loans for

the purpose of improving, developing or financing business, industry, and employment and improving the economic and environmental climate in rural communities.

Financial assistance is extended for : (1) business and industrial acquisition, construction, conversion, enlargement, or repair; (2) purchasing, land development, or leases; (3) purchasing equipment, machinery and supplies; and (4) pollution control.

FY84 and FY85 guaranteed loan totals were $124 and $150 million respectively.

(millions of dollars)

	FY83	FY84	FY85	FY86
Value of Loans Guaranteed	82.0	124.0	150.0	NA

Farm Credit System

Agency: Independent
Industry: Agriculture, Fishing
Type of Subsidy: Initially Capitalized by Government
Purpose: OCR
FY85 Funding: None

The Farm Credit System is a network of federally sponsored lending cooperatives designed to provide credit to ranchers, farmers, rural homeowners, and commercial fishermen. The system is composed of (1) 12 Federal Land Banks that make long-term loans on farms or other real estate through 437 local federal land bank associations, (2) federal intermediate credit banks that provide short-term and intermediate-term loans to 359 production credit associations for operating loans, and (3) 12 district banks for cooperatives that lend to farm cooperatives offering loans. The Farm Credit System holds about one-third of the $213 billion in outstanding farm debt. Initially capitalized by the federal government, the system is now owned entirely by its user and obtains loan funds through the sale of securities in capital markets. Bonds sold by the system are not federally insured. The capital stock of the federal land banks, the federal intermediate credits banks, and the district cooperative banks is wholely owned by their member-borrowers. To be eligible for most types of Farm Credit System loans, a prospective borrower must purchase stock in the lending institution equivalent to a percentage of the loan.

The system has been in existence since 1916. The system is regulated by the Farm Credit Administration, an independent federal regulatory agency, which is headed by a 13-member board, appointed by the Secretary of Agriculture.

Interest rates charged by the system are variable and depend on the cost of obtaining funds for the system. System profits are distributed to owner-borrowers as dividends, which has the effect of lowering the effective interest rate.

The system has managed to remain solvent through the nation's agricultural downturns, including the Great Depression. Faced with record losses of $2.7 billion in 1985, however, Congress agreed to a controversial plan which would allow insolvent members of the system to draw upon the reserves of the healthy member institutions. Congress also gave the system the right to sell obligations to the U.S. Treasury--in

effect, granting it an unlimited line of credit--when it passed the 1985 Farm Bill, but this aid is only available when the system is unable to extend credit on reasonable terms, a threshold which has not yet been met.

AGRICULTURAL EXPORT ENHANCEMENT PROGRAMS

Foreign Agricultural Service

Agency: USDA
Industry: Agriculture
Type of Subsidy: Below Cost Services
Purpose: EP
FY85 Funding: $76.2 million

The purpose of the Agriculture Department's Foreign Agricultural Service is to help U.S. farmers and exporters maximize opportunities to sell U.S. agricultural commodities abroad. The service was created by the Agricultural Act of 1954. Among the service's activities are: (1) the posting of agricultural attaches and counselors in foreign countries to assist in the development of markets for U.S. farm commodities, maintain contacts with foreign governments and traders, and file reports on foreign agricultural supply and demand; (2) providing information on access to foreign markets and world commodity conditions; and (3) providing funds to various state and private organizations that promote the development of a world market for U.S. agricultural products, such as a variety of commodity associations and cooperatives, the National Association of State Departments of Agriculture, and other regional groups and private firms. Prior to 1986, the Foreign Agricultural Service provided the funds for the purchase of LANDSAT remote sensing data covering Soviet agriculture, but this expense has been transferred to the Commodity Credit Corporation.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	75.0	83.9	83.6	83.0
Outlays	70.6	73.7	76.2	83.2

Commodity Credit Corporation Export Financing Program

Agency: USDA
Industry: Agriculture
Type of Subsidy: Loans and Loan Guarantees
Purpose: ESP
FY85 Funding: $1.7 billion

Commodity Credit Corporation funds are used to carry out several programs for financing agricultural exports. First, the CCC may finance sales of agricultural commodities by converting foreign currency on credit terms, extending of credit, assuming certain risks, or providing short-term export credit guarantees. These financing measures can be used for either commodities owned by the CCC or those in private distribution channels. Second, the CCC can supply government-owned agricultural commodities for foreign donations programs, including the Food for Progress program.

Also, under the Agricultural Trade Development Act of 1954, CCC commodities can be used for sales bonuses or promotion programs, or to secure agreements by recipient countries to acquire additional commodities from the United States through commercial arrangements.

(billions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	1.02	1.37	1.90	1.30
Outlays	0.99	1.08	1.70	1.40

Federal Crop Insurance Corporation

Agency: USDA
Industry: Agriculture
Type of Subsidy: Government Insurance
Purpose: OCR
FY85 Funding: $98.8 million (value of subsidy)

The Federal Crop Insurance Corporation, a division of the Department of Agriculture, subsidizes crop insurance to farmers. The purpose of the program is to provide all-risk insurance for individual farmers against natural hazards, including drought, excessive rainfall, freezes, and insects. Crop insurance is available in over 3,000 agricultural counties throughout the nation. The program began in 1938.

In 1980, legislation was enacted with the goal of developing a market for crop insurance so that private insurance companies would eventually be willing to offer crop insurance service without federal support. To facilitate this transition: (1) Expanded coverage was encouraged to increase the risk pool. Under this new system, the amount of insurance in force is expected to reach $9.8 billion in 1987, up from $4.3 billion in 1984. (2) The federal government would agree to reinsure private companies offering crop insurance and provide operating assistance when necessary. The proportion of insurance written by private companies has increased to 85 percent in 1986, from only 4 percent in 1981. (3) The federal government agreed to pay 25 percent of the premium charged individual farmers by the reinsured private companies.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Amount of Premium Subsidy	91.4	64.5	98.8	103.0

The Administration's proposed FY87 budget included a plan to phase out the federal subsidy to crop insurance over the next five years by gradually decreasing the premium subsidy, by encouraging actuarially sound premiums, by charging user fees to cover the federal administrative expense for the program, and by phasing out federal operating subsidies to the reinsured private insurance companies. However, because of the long history of government involvement in crop insurance totally privatizing the program may prove more difficult both politically and practically than the Administration hopes.

Below Cost Grazing Fees on Federal Lands

Agency:	**DOI/USDA**
Industry:	**Agriculture**
Type of Subsidy:	**Below Cost Service**
Purpose:	**OCR**
FY85 Funding:	**$10 million (for rangeland improvement)**

The Interior Department's Bureau of Land Management (BLM) and the Agriculture Department's Forest Service administer a program which sells grazing permits for federal rangelands to ranchers and farmers. The system primarily is intended to encourage the productive use of federal land resources. But as a result of the fee system, the program amounts to an implicit subsidy to the participating ranchers and farmers. A monthly fee is charged for each "Animal Unit." (An animal unit equals one cow, one cow-calf pair, one horse, or five sheep.) This fee is referred to as an animal unit month (AUM) charge. It is calculated on the basis of livestock prices and the costs of livestock production. The fee does not take into consideration the federal expense for administering the program or the fair market value of the grazing rights.

The current federal fee per AUM is around $1.35, an estimated 80 percent less than comparable grazing fees on private land. In total, the fees cover only about 35 percent of the costs of federal rangeland management and improvements. BLM appraisers have estimated that the government could have recovered $500 million more from the program over the last decade if the ranchers were required to pay full market value.

About 31,000 livestock producers (about 2 percent of the U.S. industry) participate in the program. Federal rangelands are concentrated in the 16 western states. As a result, an estimated one-third of the cattle raised in this region graze on federal land during at least part of the year.

For the past five years, OMB has repeatedly urged that the grazing fees be increased. Environmentalists, who argue that low fees have encouraged overgrazing of federal lands, also support such a change. But farmers and ranchers defend the low fees and are strongly opposed to any change in the fee formula which would not take into account livestock values. Because of the political sensitivity of this issue in the Republican-dominated western states, a proposal to increase grazing fees was dropped from the President's 1987 budget request.

Subsidized Irrigation Water

Agency:	**DOI**
Industry:	**Agriculture**
Type of Subsidy:	**Below Cost Service**
Purpose:	**OCS**
FY85 Funding:	**NA**

The Bureau of Reclamation, a division of the U.S. Department of Interior, provides irrigation water to farms in 17 western states. The reclamation program dates back to the 1902 Reclamation Act which Congress passed to encourage homesteading and settlement in western states. The Bureau supplies water to about one-fourth of all the irrigated land in the west, a total of over 30 million acre-feet annually.

Farmers pay a fee to receive irrigation water, but the fee is far below the actual cost of the water for several reasons:

1. The service is provided to farmers on the basis of long-term fixed-price contracts. These contracts often are for terms of 40 to 50 years, reflecting the expected physical life of the dam and irrigation system. Most of these contracts were negotiated years ago, and cannot be adjusted upwards for inflation, changing economic conditions, or a change in the market value of the water.
2. Repayment agreements are structured to recover the government's cost in constructing the project. But no interest is charged. This interest subsidy is the largest implicit subsidy in the program.
3. An "ability-to-pay" factor is taken into account when the original rate is set.
4. By law, other beneficiaries of the federal dams—electricity users, municipalities that receive water, etc.—underwrite part of costs attributable to irrigation.

Various studies of these factors have found that the program subsidizes as much as 80 to 90 percent of the costs of the irrigation water. Depending on the age of the contract, water is supplied for as little as $2 per acre-foot or less, despite the fact that it can cost the Department of Interior more than $40 an acre-foot to supply the water.

In addition to the low cost water, the Bureau of Reclamation provides direct loans to water users and irrigation districts for improving or rehabilitating water distribution and irrigation systems. New distribution system loans amount to about $10 million annually and new system rehabilitation loans total about $30 million annually. However, the Administration is seeking reductions.

Critics of the system believe that a system of water fees designed to recover the government's costs fully would not only help reduce the deficit, but would encourage more economical use of scarce water resources. But the long-term contracts are a barrier to radical change, and politically powerful western growers defend the system in its current form.

Expensing of Certain Agricultural Expenditures

Agency: IRS
Industry: Agriculture
Type of Subsidy: Tax Deduction
Purpose: SDK
FY85 Funding: $470 million

Certain agricultural related costs may be expensed rather than capitalized, thus accelerating deductions. The eligible costs include three categories: (1) soil and water conservation; (2) fertilizer and soil conditioning; and (3) land clearing. The costs of soil and water conservation improvements that may be expensed include amounts paid for such items as grading, terracing, and contour furrowing, the construction of drainage ditches, irrigation ditches, dams and ponds, the planting of wind breaks, and certain assessments levied by soil or water conservation districts. The amount of soil and water expenditures that may be expensed each year is limited to 25 percent of the gross income derived by the taxpayer from farming. Any excess amount above the 25 percent limit is carried forward to succeeding years.

Eligible fertilizer and soil conditioning expenses include purchases of materials to enrich, neutralize or condition land used in farming, or costs for the application of such materials to the land that would otherwise be capitalized.

Taxpayers also may elect to expense rather than capitalize certain expenditures paid or incurred to clear land for the purpose of making the land suitable for farming. The deduction in any year cannot exceed the lesser of $5,000 or 25 percent of the taxable income derived from farming.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Tax Expenditure	570.0	650.0	470.0	500.0

AVIATION

The federal government's assistance to the aviation industry is primarily intended to help develop the nation's transportation infrastructure. Construction and operation of airports is largely a local responsibility, but the federal government plays a limited role in assisting localities through airport improvement grants. The federal government's most significant role in the aviation industry is the operation of the nation's air traffic control system. However, the amount of subsidy in this system is small as the vast majority of the government's costs are recovered through aviation user fees.

Overall, the federal role in aviation appears to be declining, especially since federal regulation of air fares was abandoned several years ago. For example, an aircraft loan guarantee program, previously administered by the Federal Aviation Administration, discontinued new lending three years ago.

Payments for Essential Air Services

Agency: DOT
Industry: Commercial Airlines
Type of Subsidy: Grants
Purpose: OCR
FY85 Funding: $33.6 million

In 1978 an air service subsidy program was created to provide certain communities with a transition period to adjust to the effects of airline deregulation. The subsidy payments are made to air carriers providing essential air services to communities that would otherwise be uneconomical to serve in a deregulated market. Subsidy payments cover air carriers' costs and rate of return needs. The program maintains air services in approximately 150 communities adversely affected by airline deregulation.

The average expenditure per community served is roughly $300,000. While the direct payments are made to the air carriers, the program also indirectly subsidizes air travelers in the affected communities.

The program currently is operated out of the Office of the Secretary of Transportation. Previously the program was administered by the Civil Aeronautics Board, which was eliminated last year.

The Reagan Administration proposes to terminate the program, arguing that it hinders the development of more efficient forms of transportation. However, congressional representatives from communities served by the program staunchly defend it, and so far have managed to preserve it.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	NA	46.2	41.4	28.0
Outlays	NA	40.9	33.6	39.0

Federal Airport and Air Traffic Control Expenditures

Agency:	**DOT**
Industry:	**Commercial and General Aviation**
Type of Subsidy:	**Below-Cost Service**
Purpose:	**OCR and SDK**
FY85 Funding:	**$1.17 billion**

The federal government, through the Federal Aviation Administration, operates and maintains the nation's air traffic control system, which is solely a federal responsibility. The federal government also assists state and local governments with airport construction and maintenance expenditures through grants under the Federal Airport Improvement Program. Total federal expenditures on the nation's air transportation system are projected at $4.8 billion in 1987.

Most of the federal government' expenditures for maintaining and operating the air traffic control system, as well as for airport improvement grants, are recovered through a user fee that takes the form of a tax on domestic passenger tickets and fuel taxes. At present, however, these fees are not adequate to cover the government's costs of operating the system. The Congressional Budget Office estimates that the subsidy resulting from the unrecovered portion of the costs will be about $400 million in 1987.

The system also results in a sizable cross-subsidy which benefits general aviation users (private aircraft owned by businesses and individuals) at the expense of commercial aviation users. According to the Congressional Budget Office, private planes pay only about one-tenth of their share of the federal aviation expenditures, while commercial aviation users overpay by approximately 20 percent. General aviation accounts for as many as half of airport takeoffs and landings. Two-thirds of general aviation flight hours are business-related and half of the nation's largest companies operate at least one private plane. General aviation is expected to increase as a share of total airport traffic.

(billions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Federal Operating Expenditures for Air Traffic Control System	1.06	1.09	1.17	1.21

Airport Improvement Program

Agency:	**DOT**
Industry:	**Aviation**
Type of Subsidy:	**Grants**
Purpose:	**SIS**
FY85 Funding:	**$789 million**

The Airport Improvement Program provides project grants and technical advice to airports. (The federal government owns and operates only the airports that serve the nation's capital. Other airports are run by either local or regional public agencies or private entities.) The purpose of the program is to assist in the development of a nationwide system of airports adequate to meet the needs of civil aeronautics. The program was authorized by the Airport and Airway Improvement Act of 1982 and the

Noise Abatement Act of 1979. Grants are available for projects related to such purposes as system planning, noise abatement, land acquisition, construction of certain facilities (excludes parking lots, hangars, and nonsafety-related buildings), safety or security equipment, terminal development, and weather reporting or snow removal equipment.

Grants are provided on a cost-sharing basis with the federal government paying between 50 and 90 percent of project costs depending on the grant applicant and the nature of the project.

The funding for this program comes primarily from the Airport and Airway Trust Funds which contains revenue from the federal tax on airline passenger tickets and other airport user fees.

In FY83, 1,082 grant agreements were executed for a total obligation of $788 million. In FY84, 1,104 grant agreements were executed for a total of $810 million.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	800.0	994.0	987.0	973.0
Outlays	452.0	694.0	789.0	776.0

Aviation Insurance Revolving Fund

Agency: DOT
Industry: Aviation
Type of Subsidy: Government Insurance
Purpose: OCR
FY85 Funding: None

Under Title XIII of the Federal Aviation Act, the Secretary of Transportation is authorized to provide insurance coverage to air carriers in extraordinary circumstances. The statute provides that this insurance coverage be issued under the following conditions: (1) the FAA determines commercial insurance is not available on reasonable terms and conditions; (2) the aircraft is in operation in foreign air commerce or between two points outside of the United States; (3) the President determines that continuation of the airline service is in the foreign policy interest of the United States; and (4) insurance is provided to U.S. air carriers operating under contract to the Department of Defense or the Department of State. Under this condition, insurance is issued without a premium, but the Departments of Defense and State reimburse the insurance funds for all payments resulting from accidents related to their contract activity. Under all other conditions, a premium is charged. The fund is self-financing through premiums, binder fees, and investment income.

The fund provides insurance against loss of or damage to the aircraft and liability coverage against injury, death, property damage, and other losses. Amount of coverage available, terms, and deductibles are equivalent to commercial insurance.

During FY83-FY83, the fund operated in the black, with revenues exceeding obligations. No budget authority was required.

DEFENSE AND AEROSPACE

Introduction

Since taking office in 1980, President Reagan has placed a priority on rebuilding American defense capabilities. Congress has not agreed to as large an increase in defense spending as the Administration has requested, but sizable increases have still been approved. Between 1980 and 1985, defense-related outlays increased from $134 billion to $253 billion and further large increases are projected.

The objective of the defense budget is to protect the United States and its allied from foreign aggression, but defense spending also has significant benefits for the economy and for industry. It is clear that the Administration views procurement spending as a way to increase local economic growth and strengthen the nation's industrial base by supporting key industries. In his preamble to the 1983 report Defense Procurement and Economic Development, President Reagan wrote:

> The sole criterion in deciding how to spend our scarce defense dollars must be our national security, but we should recognize that defense spending can generate other benefits as well. It can strengthen both traditional industries and those which utilize the latest breakthroughs in high technology. It provides jobs, millions of them, and significantly expands the tax base, not only in terms of federal revenue, but for state and local resources as well.

Because of the size and diversity of defense spending and procurement activities, the benefits of such spending extend to every state and region and many different sectors of industry, particularly when subcontracting and indirect purchases are considered. However, it is clear that the major companies engaged in defense contracting activities benefit the most from federal defense dollars. The seven largest government contractors are all large defense contractors (McDonnel Douglas Corporation, Rockwell International, General Dynamics Corporation, General Electric Company, Lockheed Corporation, The Boeing Company, and United Technologies Corporation). Together, these firms account for 25 percent of total federal procurement.

With defense spending increasing and other categories of federal spending declining, congressional debate on the allocation of defense dollars is becoming more heated. Defense spending has become in the words of one member of Congress, "the last big porkbarrel." Increasingly, states and localities are lobbying to secure for themselves the regional economic benefits of increased defense spending. Populous states with more voting strength in Congress appear most successful in attracting defense dollars. Ten large states, including California, New York, Illinois, Florida, Pennsylvania, Virginia, Ohio, New Jersey, and Massachusetts, accounted for 57 percent of defense spending in 1985. This contradicts the commonly held belief that southern and Sunbelt states have benefited most from defense spending. (See Appendix F.)

General Defense Procurement and R&D Expenditures

Agency: DOD
Industry: Defense, Aerospace,
Type of Subsidy: Government Purchases
Purpose: NS
FY85 Funding: $70.3 billion

In FY85 the Department of Defense (DOD) spent $70.3 billion on military procurement. Some of the largest procurement items include aircraft and airframe structures, engines and turbines, communications and detection systems, computer equipment and software, and guided missiles.

Government purchases provide several advantages to private industry. First, they provide a large and stable market, and thus reduce the risk of committing resources to a venture and help attract investment. Second, research done for the defense department can have spinoff benefits that lead to the development of commercially successful nondefense enterprises. A frequently cited example is the development of the semiconductor. DOD played a crucial role in supporting the development of this technology, which now has grown into a highly profitable nondefense business. Finally, the defense procurement sector is shielded from international competition to a greater extent than other markets because of specific buy-American provisions, national security concerns, or the complexity of the defense procurement process which deters many foreign firms from competing for defense contracts.

(billions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	80.3	86.1	96.8	92.6
Outlays	53.6	61.8	70.3	75.7

Science and Technology Program

Agency: DOD
Industry: General
Type of Subsidy: Government Purchases,
Purpose: SDR/NS
FY85 Funding: $9 billion (budget request)

The Defense Department's Science and Technology Program is the main vehicle for defense research on technologies and innovations being designed for future applications. The Science and Technology Program encompasses a wide array of projects ranging from basic research to demonstration projects in an operational environment. The three branches of the military service—the Army, the Navy, and the Air Force—manage about 46 percent of the program with the remainder controlled by the Defense Department. Research undertaken through this program includes projects relating to very high-speed integrated circuits, computers and software, medical and life sciences, training systems, chemical defense capabilities, jet engine research, advanced materials research, and basic research. The program's $9 billion budget request for FY85 included SDI funding.

Defense Advanced Research Projects Agency

Agency:	**DOD**
Industry:	**General**
Type of Subsidy:	**Government Purchases**
Purpose:	**SDR/NS**
FY85 Funding:	**$2.75 billion**

The Defense Advanced Research Projects Agency (DARPA), a division of the Department of Defense, provides the department with corporate research support. The agency concentrates on high-risk projects carefully selected to maintain the United States' technological lead. Major DARPA research programs include development of "super-intelligent" computers for advanced defense systems applications, development of high-temperature jet engine components, development of laser communications methods for submarines, and resolving technical issues related to satellite programs.

(billions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Expenditures	0.822	1.35	2.75	4.23

(Expenditure figures for all DOD advanced technology development)

Independent R&D Program

Agency:	**DOD, NASA, others**
Industry:	**General**
Type of Subsidy:	**Government Reimbursement**
Purpose:	**SDR/NS**
FY85 Funding:	**NA**

The Department of Defense, the National Aeronautics and Space Administration (NASA), and other federal agencies allow contractors to add an overhead charge of 3.5 percent to 4.0 percent on their sales to the federal government. The overhead charge is to be spent on R&D projects with potential federal relevance. The charge generally takes the form of reimbursement for costs incurred.

In 1983, the cost of the Independent R&D (IRD) program was $1.7 billion. Of that total, $1.6 billion went to defense contractors and the vast majority of the remaining funds went to NASA contractors.

The program's success in generating innovation is difficult to measure. Government oversight of the expenditures is minimal.

Bid and Proposal Reimbursement

Agency:	**DOD, others**
Industry:	**Defense**
Type of Subsidy:	**Government Reimbursement**
Purpose:	**SDR/NS**
FY85 Funding:	**NA**

Defense contractors and other federal contractors are permitted to inflate their bid and proposal (B&P) costs as an incentive for R&D expenditures, engineering costs or other technical work that might have potential use to the government. (This program is similar to the IR&D program.) In 1983, B&P reimbursements cost the Department of Defense $950 million.

Manufacturing Technology Program

Agency: DOD
Industry: General
Type of Subsidy: Grants
Purpose: SDK/NS
FY85 Funding: NA

The Department of Defense Manufacturing Technology Program (Mantech) provides funds to defense contractors for the upgrading of their productive capabilities. Unlike R&D funds provided through procurement contracts, Mantech program expenditures are not targeted at specific procurement items. Rather, the object is to improve the contractor's production process in a way that can be applied to a multitude of future procurement items.

The goals of the program are to increase capital investment by defense contractors and to help modernize their facilities in order to improve productivity, reduce defense acquisition costs and lead times, and encourage the diffusion of advanced technologies. The program is intended to bridge the gap between R&D innovations and production applications of new technologies. Many of the projects involve demonstration of "factory floor" applications of new technologies.

A wide range of technologies are involved, but much of the aid involves high-technology processes, including electronics, computer aided design and manufacturing systems, and jet engine manufacturing.

The program has existed in various forms since the 1950s. Each of the three branches of military service--Army, Navy, and the Air Force--administers its own Mantech program and funds it through different accounts; thus it is difficult to obtain exact projections of the program's costs and benefits. In 1983, it is estimated that DOD spent $131 million on the program. In 1984, the program was funded at about $200 million. For the five-year period ending in 1984, funding totaled about $830 million. It is anticipated that the expenditures on this program will increase in the future. DOD estimated that for FY85, FY86, and FY87, funding would total $1.1 billion.

The commercial impact of this program on defense contractors is difficult to measure. No systematic studies of the benefits of the program or the penetration of Mantech-originated technologies into the commercial marketplace has been undertaken.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Program Funding (est.)	131.0	200.0	NA	NA

Industrial Modernization Incentive Program

Agency: DOD
Industry: General
Type of Subsidy: Government Reimbursement
Purpose: SDK/NS
FY85 Funding: NA

Since 1983, the Defense Department has had in place a test program called the Industrial Modernization Incentive Program which is designed to develop contract incentives to encourage defense contractors to use their own funds to increase

productivity through capital investment. In June 1986, the Defense Department proposed formalizing the program. The program is used in individual cases when additional R&D incentives are deemed to be necessary. IMIP incentives are negotiated between DOD and the contractors and included as part of the contract. Incentives under the IMIP program take two forms. Productivity Savings Rewards allow for savings resulting from the improvement to be shared between the government and the contractor based on a negotiated percentage which takes into account the risks and benefits to both parties. Contractor Investment Protection guarantees that the government will acquire from the contractor the specific capital assets purchased by the contractors in the event that the contract is terminated and the contractor's investment cannot be recovered.

The Defense Production Act

Agency:	**DOD**
Industry:	**General**
Type of Subsidy:	**Loans, Government Purchases, Price Guarantees**
Purpose:	**SDK/NS**
FY85 Funding:	**$10 million (BA)**

The Defense Production Act, enacted in 1950, is the key authority for U.S. emergency planning and preparedness, and provides the statutory basis for wartime mobilization of the nation's industrial and material resources. Title III of the act authorizes the government to make loans, subsidies, purchase agreements, and price guarantees to industry to expedite and expand production capacity and supply in industries deemed essential to the nation's defense readiness. In short, the statute gives the Defense Department the authority, through purchasing agreements, to subsidize elements of the nation's industrial base deemed vital to national security. Title III was used to carry out virtually all of the economic mobilization measures taken during the Korean War and played a key role in the establishment of the U.S. aluminum industry. More recently, Title III provided the authority for the maintenance of the Department of Defense's machine tool order program and guayule (synthetic rubber) loan guarantee and purchase agreement program.

In recent years, the use of Title III has been promoted as a way to protect the revitalize U.S. industrial base and protect the nation against the potential cutoff of strategic materials through support of domestic metals and mining industries. Congressional critics of the act, however, object to the broad economic authorities of the DPA. These critics contend that Title III amounts to a form of corporate welfare, and have urged that limitations be placed on the President's authority to spend funds appropriated for Title III projects. Critics allege that the DPA's authorities are so broad that the Defense Department or enterprising legislators could finance just about anything under the act if they can get an appropriation and conjure up a justification that seems to be related to national security.

Budget appropriations for DPA purchases were $10 million in FY85 and are estimated at $31 million for FY86. The Administration has requested $30 million for the program in FY87. However, the act is scheduled to be reauthorized by Congress this year, and the program is likely to be scrutinized carefully.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	—	—	10.0	29.4
Outlays	—	—	—	1.00

Foreign Military Sales Programs

Agency: DOD
Industry: Defense, aerospace
Type of Subsidy: Government Loans
Purpose: EP
FY85 Funding: $2.27 billion

Through the Foreign Military Sales Credit Program the Department of Defense provides financing for foreign governments to purchase U.S. military equipment, training, and design and construction services. A substantial amount of the budget for this program goes for concessionary loans, such as loans with favorable interest rates, long grace periods, or forgiven loans. But some of the loans are made at interest rates slight higher than the interest rates paid by the U.S. Treasury.

For FY87, the Reagan Administration requested budget authority of $6.1 billion (outlays of $5.8 billion) for this credit program.

The government also provides financial assistance for the same types of articles and services through Military Assistance Grants to strategically important countries unable to shoulder the economic burden of debt repayment. The Reagan Administration requested $1 billion for this type of military assistance in FY87.

(billions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	1.17	1.31	4.94	5.19
Outlays	0.609	1.05	2.27	3.86

NASA Expenditures, R&D, and Procurement

Agency: NASA
Industry: Aerospace
Type of Subsidy: Government Purchases
Purpose: SDK/SDR
FY85 Funding: $2.11 billion

The National Aeronautics and Space Administration (NASA) is one of two federal agencies that support research and development as their primary mission. The other is the National Science Foundation.

NASA provides business with revenue by subcontracting on its space ventures, and also by the purchase of supplies from the private sector. An October 1, 1985 - March 31, 1986 procurement report noted that of the $4.4 billion in contract awards, 77 percent went to business firms, a total of $3.4 billion. (This represented 3.9 percent less than the same time period of FY85.) New awards for this time period totaled $195.5 million. Small businesses received 8.9 percent of the total business awards or $303.8 million. $65.7 million was awarded to small minority firms.

O' the $3.4 billion businesses received, $2.1 billion went for Space Flight Control and Data Communication (SFCDC), $1.098 billion for Research and Development (R&D), $132 million for Research and Program Management (R&PM), and $37 million for Construction of Facilities (CofF). It should be noted that 59 firms received awards of $5 million or more.

As part of its policy, NASA also makes provisions for placing awards outside of the United States. Direct NASA awards to foreign firms totaled $41.9 million, with Canada receiving $13.9 million. This places Canada at the top of the direct award list.

(billions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	5.50	2.04	2.46	2.61
Outlays	5.30	2.79	2.11	2.65

The Completed Contract Method of Accounting

Agency: IRS
Industry: Military Construction
Type of Subsidy: Tax Expenditure
Purpose: SDK
FY85 Funding: NA

The completed contract method of accounting is designed to be used by companies which are bound by long term contracts. By definition a long-term contract is a contract for building, installation, construction or manufacturing that will not be finalized within the taxable year of the contract. The completed contract method is one of two methods of accounting that apply only to long term contracts, the other being the percentage of completion method.

Under the completed contract method, the entire gross contract price of a long-term contract is included as taxable income in the year in which the contract is completed and accepted. All costs that are properly allocable to the long-term contract are capitalized in the year of completion.

Until 1983, certain costs could be deducted as period costs, including costs for fringe benefits, strikes, rework labor, scrap and spoilage. Also, certain costs are currently deductible. These include: costs to market, advertise, distribute, and administer the contract; interest costs; research and development costs; salary costs; and pension and employee benefit costs.

Under recent revisions of the rules, period costs are not currently deductible if the contract is classified as an extended period contract. An extended period contract is one in which the work is not expected to be completed within 24 months. For extended period contracts, certain costs that would be treated as period costs and thus deductible for contracts of durations less than 24 months are allocated to the contracts (and thus deductible only upon project completion) to the extent they either directly benefit or were incurred by reason of such costs. These costs include bidding expenses, distribution expenses, administrative expenses, research and development expenses, excess in depreciation or amortization, pension and profit sharing costs, rework labor, scrap and spoilage costs, and the costs of percentage depletion in excess of cost depletion. There are limited exceptions to these rules.

The completed contract method is particularly valuable to defense contractors because long term contracts represent a major portion of their business. The ability of these contractors to defer taxes on long-term contracts, while deducting some costs currently, also lowers their effective tax rates on all aspects of their respective businesses.

The House version of tax reform would discontinue the completed contract method except for short term contracts of small businesses. The Senate bill would impose new limitations on use of the method.

FISHING

Introduction

A number of very specialized aid programs assist the U.S. commercial fishing industry, However, their overall budgetary impact is relatively insignificant. Most of these programs are intended to protect the commercial fishing industry from its two economic (and political) foes—foreign fishing vessels and the offshore oil and gas industry. Many of the fishing industry aid programs derive their revenues directly from fees or duties levied on foreign fishing vessels or offshore lease operators.

Fishing, like commercial shipping, has a strong political base in the House of Representatives' Merchant Marine and Fisheries Committee. Most other business interests find that their concerns fall under the jurisdiction of committees with very broad areas of jurisdiction—such as Energy and Commerce or Ways and Means—and, as a result, their concerns can get lost in the shuffle. But because the Merchant Marine Committee's jurisdiction is so much narrower, it is able to spend more time on the political concerns of the U.S. fishing industry and the members of the committee, many of whom represent coastal or Great Lakes states that have an economic stake in their policies, form a political constituency for the fishing and shipping industries.

Fisheries Loan Fund

Agency: DOC
Industry: Fishing
Type of Subsidy: Loans
Purpose: OCR
FY85 Funding: $3.8 million

The Fisheries Loan Fund, administered by the Commerce Department's National Marine Fisheries Service, provides loans to vessel operators at subsidized rates for purchasing, constructing, equipping, maintaining, repairing, or operating new or used commercial fishing vessels or gear. The fund was established under the Fish and Wildlife Act of 1976. Funds are appropriated from receipts from foreign fishing fees.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	10.0	3.00	2.50	—
Outlays	0.15	1.60	3.80	0.37

Fishermen's Contingency Fund

Agency: DOC
Industry: Commercial Fishing
Type of Subsidy: Government Insurance
Purpose: OCR
FY85 Funding: $568,000

A portion of federal revenue from oil and gas activity on the Outer Continental Shelf (OCS) is set aside in the Fishermen's Contingency Fund. The Fund, administered by the Commerce Department's National Marine Fisheries Service, is used to compensate U.S. commercial fishermen for damages or losses of fishing gear due to oil and gas activity on the OCS and partially reimburse them for resulting economic losses. In FY84,

183 claims were submitted and 143 were approved. The average amount of compensation was $3,883. An increase in the number of claims and the amount of disbursements has occurred since then because of an amendment to the authorizing statute—Outer Continental Shelf Lands Act—which lengthens the claims period and the percentage of economic loss which is reimburseable. The Administration has recommended that the Fund be terminated in 1987 and the balance returned to OCS leaseholders.

(thousands of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	250.0	195.0	750.0	750.0
Outlays	327.0	484.0	568.0	750.0

Fishing Vessel and Gear Damage Compensation Fund

Agency: DOC
Industry: Commercial Fishing
Type of Subsidy: Government Insurance
Purpose: ESP
FY85 Funding: $.57 million

Based on authority provided in Section 10 of the Fishermen's Protective Act of 1967, the National Marine Fisheries Service administers the Fishing Vessel and Gear Damage Fund which compensates U.S. fishermen for the loss, damage, or destruction of their vessels or gear by foreign fishing vessels. To be eligible, the claimant must be a U.S. citizen and the incident must have occurred within the U.S. Fishery Conservation Zone or an area where the United States has exclusive management authority. Claims are based on the depreciated replacement cost of equipment damaged or lost and 25 percent of gross income lost.

During FY84, 143 claims were submitted and 60 claims were carried over from the previous year. Of this total, 144 were approved, seven were denied, and the remainder were carried over. The average claim payments in 1984 was $7,843 and direct payments totaled approximately $1.2 million.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	1.75	1.70	—	—
Outlays	0.82	1.50	0.57	3.70

Fishermen's Guaranty Fund

Agency: DOC
Industry: Commercial fishing
Type of Subsidy: Government Insurance
Purpose: ESP
FY85 Funding: $5.8 million

Based on authority provided in Section 7 of the 1967 Fishermen's Protective Act, the National Marine Fisheries Service administers the Fishermen's Guaranty Fund which compensates U.S. fishermen for losses incurred as a result of the seizure of a U.S. vessel by a foreign county on the basis of rights or claims not recognized by the United States. Loss payments are generally limited to the market value of fish caught before the

seizure which were spoiled or confiscated and up to 50 percent of gross income lost as a direct result of the seizure. Fishing vessels become eligible for the protection by entering into an agreement with the Secretary of Commerce and paying a fee. Funds are derived from fees paid by vessel owners and since 1977 no additional appropriation has been necessary.

For FY84, 200 guaranty agreements were executed and $734,800 was disbursed for payment of nine claims.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Claims and Indemnities	1.50	0.73	5.80	3.10

Fishing Vessel Obligation Guarantees

Agency: DOC
Industry: Commercial fishing
Type of Subsidy: Loan guarantee
Purpose: SDK
FY85 Funding: $157.9 million

The Fishing Vessel Obligation Guarantees program provides government guarantees for private loans to finance or upgrade U.S. fishing vessels or shoreside facilities. The guarantees apply to up to 87½ percent of actual vessel costs. The program is similar to the Federal Ship Financing Guarantees Program (see page 26).

Eligible lenders must be approved by the Department of Commerce and pay an application fee of one-half of 1 percent on loans up to $2 million. The National Marine Fisheries Service administers the program.

In FY84, 34 guarantees were issued. Although the Administration had recommended terminating the program in FY86, Congress has not complied with the request. NMFS anticipates that 60 new guarantees will be issued in FY86.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Year-end Contingent Liability for Guaranteed Loans	174.3	155.6	157.9	162.9

Fishery Development and Utilization Funds (Saltonstall/Kennedy Grants)

Agency: DOC
Industry: Fishing
Type of Subsidy: Grants
Purpose: SDR
FY85 Funding: $9.9 million

The 1954 Saltonstall/Kennedy Act stipulates that 30 percent on the duties of imported fishery products is to be made available to help promote and develop fishery products and to conduct technological, biological, and other research pertaining to

American fisheries. The General Accounting Office calculates that between 1980 and 1985, about $187 million from custom duties were provided to the Commerce Department, which administers the program through the National Marine Fisheries Service (NMFS). Of this total, $58.4 million was provided to industry in the form of grants. During the early years of the program, most of the money was used by the Commerce Department for its own research activities related to fishery development. In 1980, Congress amended the law to require that a portion of the funds be available for industry grants and the remainder should be used by the government for research programs not adequately financed through grants.

The largest amount of grants is awarded to seven regional Fishery Development Foundations. The foundations are private, nonprofit groups which represent the fishing industry in various regions of the country. Their activities include product development, seafood quality improvement, marketing and promotional activities on behalf of the industry, and promoting underused fish species. The second largest category of recipients is private firms in the fishing industry. The remainder of the grant money goes to universities and state and local governments. The Commerce Department also uses Saltonstall/Kennedy funds for in-house research to benefit the fishing industry.

Grant recipients have a matching requirement of 20 to 50 percent depending on the risks and benefits of the project. In FY84, 86 projects were funded. The average amount of the assistance was approximately $100,000.

The Reagan Administration proposed to terminate the program for FY86, but so far, Congress has not complied with its request.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	8.00	9.90	9.00	8.00
Outlays	8.70	8.40	9.90	8.00

SHIPPING/SHIP BUILDING

Introduction

The monetary value of the federal assistance provided the shipping industry is small compared to that provided to the agricultural sector. However, shipping assistance programs are unique in that they are among the few U.S. subsidy programs clearly intended to help an industry compete against lower-cost foreign competitors. This motive is based in national security concerns. The U.S. subsidizes its shipping and ship building industry in order to have a large enough merchant fleet and adequate ship yards to meet potential wartime shipping and contracting needs.

The federal government also provides indirect assistance to the shipping industry through the activities of the U.S. Coast Guard, which provides navigational and safety assistance to commercial ships, and through the Army Corp of Engineers' construction and maintenance activities that relate to the nation's system of waterways and harbors.

Operating Differential Subsidies (ODS) for U.S. Shipping Industry

Agency:	**DOT**
Industry:	**Shipping**
Type of Subsidy:	**Grants**
Purpose:	**OCR**
FY85 Funding:	**$351.7 million**

The Department of Transportation's Maritime Administration, working through the Maritime Subsidy Board, provides the U.S. shipping industry with direct assistance in the form of subsidies that make up the difference between the operating costs of foreign and U.S.-flag ships on certain trade routes. U.S.-flag liners and bulk carriers with ODS contracts are the primary recipients of this assistance. The justification for the program is the need to maintain adequate shipping resources for emergency mobilization and wartime military purposes. The authority for the program is contained in Title VI of the 1936 Merchant Marine Act.

The subsidy is paid pursuant to a contract between the government and the ship operator. The payments are based on contracts of up to 20 years. The ship operators are required to be U.S. citizens and the vessels must either be of U.S. construction, or if foreign built, meet certain statutory requirements. Subsidized operators are contractually obligated to replace existing vessels in the subsidized fleet as they become obsolete.

The Congressional Budget Office has estimated that this assistance totaled approximately $400 million in 1985. Depending upon the type of service vessel and trade, the per day subsidy payments per ship normally range from about $5,434 to $13,300 with $9,740 as the average. As of January 31, 1985, 122 ships were subsidized for liner and bulk operations.

The Reagan Administration has instituted a policy of eliminating new ODS contracts but honoring existing contracts. During FY85, no new ODS contracts were awarded.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Contract Authority	339.6	361.6	338.0	299.5
Outlays	368.1	384.2	351.7	311.5

Construction Differential Subsidies (CDS) for U.S. Shipping Industry

Agency: DOT
Industry: Ship Building
Type of Subsidy: Grants
Purpose: OCR
FY85 Funding: NA

To promote the development and maintenance of the U.S. merchant marine fleet and to encourage the construction of ships in U.S. shipyards, the 1936 Merchant Marine Act authorizes the granting of financial aid to equalize the cost of construction of a new ship in a U.S. shipyard with the costs of constructing the same ship in a foreign shipyard. The program is administered by the Department of Transportation's U.S. Maritime Administration. The government will pay up to 50 percent of the cost of construction on competitive contracts and 35 percent on negotiated contracts. Over the life of the program, total outlays have totaled over $10 billion.

Only ships to be used in foreign commerce are eligible for the program. No construction differential subsidy exists for ships operating in domestic trade. Either a shipyard or a ship purchaser can apply for the program, but in either event, the subsidy is paid to the shipyard.

In exchange for the financial assistance, the ship owner must agree to build the ship in the United States and operate it under the U.S. flag with a crew of U.S. citizens for a specific number of years. The ship is also subject to requisition by the United States during times of national emergency.

In FY81, three new ship buildings and 21 reconstructions were subsidized and the average subsidy for a reconstruction was approximately $3 million. Through the end of FY82, the government had agreed to pay $349 million of the $717.9 million in total construction and reconstruction costs under contract. In FY83, an additional $25 million was appropriated specifically for trade-ins. Starting in FY84, funding for new awards of subsidies for ship building was eliminated.

Federal Ship Financing Guarantees

Agency: DOT
Industry: Ship Building
Type of Subsidy: Loan Guarantees
Purpose: OCR
FY85 Funding: $266.3 million

Title XI of the 1936 Merchant Marine Act authorizes a program of federal loan guarantees to promote the construction and reconstruction of U.S. ships used in domestic or foreign commerce. The program is administered by the Department of Transportation's Maritime Administration.

Depending on the type of vessel, up to 87.5 percent of the cost can be financed through government-guaranteed loans. If the vessel also receives construction subsidies, up to 75 percent of the costs are eligible for the guaranteed financing.

Under the program, the federal government has only a contingent liability. Liabilities from defaults are covered by a Ship Financing Fund established from fees paid by ship owners (.5 to 1 percent of the outstanding loan balance). The fund has an inflow of about $50 million per year, and until recently no appropriated funds have been required to support the program. But with the fishing and oil industries depressed, the number of foreclosures has increases, and the program had to borrow from the Treasury to meet its obligations.

As of the end of FY85, the cumulative balance of guaranteed loans outstanding amounted to approximately $6.4 billion. In 1984, a limit of $12 billion was placed on all outstanding guarantees. In 1984, 25 additional vessels of various types received financing under this program and the federal financial obligation for that year was $177 million. In 1985 and 1986 the usage of the program has declined, and the Reagan Administration would like to phase out the program. Congressional action, however, would be required to eliminate it.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget/Borrowing Authority	—	—	130.0	500.0
Outlays	13.7	—	266.3	509.0

Cargo Preference

Agency: DOT
Industry: Shipping
Type of Subsidy: Government Purchases
Purpose: IS
FY85 Funding: NA

A major form of indirect aid to the U.S. commercial merchant marine fleet is "cargo preference." The most important cargo preference law is the "Jones Act" that reserves all maritime traffic between U.S. ports for U.S. flag ships. Other laws require that all U.S. military and one-half of other government freight be carried in U.S.-flag ships.

The Congressional Budget Office in its 1985 report Reducing the Deficit: Spending and Revenue Options estimated that cargo preference for nonmilitary shipments would cost the government $170 million in 1986. The 1985 Farm Bill, passed in December 1985, extended cargo preference to 75 percent of U.S. agricultural aid. With this addition, cargo preference for nonmilitary ship is estimated to cost the government $500 million in 1987.

Maritime Research and Development Grants

Agency:	**DOT**
Industry:	**Shipping/ Ship Building**
Type of Subsidy:	**Grants**
Purpose:	**SDR**
FY85 Funding:	**$10 million**

The Department of Transportation's Maritime Administration awards research contracts to ship operators, shipyards, port authorities, state, local or territorial governments, or universities and other independent research concerns for projects related to improving the productivity of U.S. ship building, shipping, and ancillary industries.

In 1984 and 1985 approximately 55 research agreements, including contracts and grants, were awarded. Up to 100 percent federal funding is available, cost cost-sharing by applicants is encouraged.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	15.3	11.3	2.90	9.47
Outlays	13.4	10.0	10.1	11.9

U.S. Coast Guard Services

Agency:	**DOT**
Industry:	**Shipping and Fishing**
Type of Subsidy:	**Free of Charge Services**
Purpose:	**OCR**
FY85 Funding:	**$976 million**

The United States Coast Guard provides services—including navigational aids, maritime safety programs, marine environmental protection programs, and search-and-rescue activities—which directly and indirectly benefit boat activity, both commercial and recreational. Cumulatively, these programs account for approximately $1 billion in annual federal spending. The Reagan Administration has proposed Coast Guard user fees in the form of registration fees and other charges for both commercial and recreational boaters.

The Congressional Budget Office in its 1983 publication Charging for Federal Services estimated that about one-fourth of the search and rescue budget, 98 percent of the navigational assistance budget, and 70 percent of the marine safety budget for 1984 was for the benefit of commercial, rather than recreational vessels. This represents a potentially recoverable expenditure on average of approximately $1,300 per commercial inland shipping vessel and $3,800 per commercial coastal shipping vessel.

(billions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Program Expenditures*	1.00	1.03	0.976	0.983

The Merchant Marine Capital Construction Fund

Agency: DOT
Industry: Shipping/Ship Building
Type of Subsidy: Tax Expenditure
Purpose: SDK
FY85 Funding: $130 million

The Merchant Marine Act of 1970 provides special tax incentives for U.S. citizens and domestic corporations that own or lease certain vessels, including barges and container ships, that operate in the foreign or domestic commerce of the United States or in U.S. Fisheries. To be eligible for the special tax treatment, the vessel must have been constructed or reconstructed in the United States and must have been documented under U.S. laws.

In general, a taxpayer who qualifies for the special tax treatment is allowed to deduct from taxable income certain amounts deposited in a capital construction fund (CCF), called the Merchant Marine Capital Construction Fund, pursuant to an agreement with the Secretary of Commerce or the Secretary of the Treasury. The amount that is allowed to be deducted from income is limited to the portion of taxable income that is attributable to the operation of U.S. vessels. Additional nondeductible deposits may be made into the fund up to the amount of depreciation on the ship for the year. It is important to note that interest on all amounts in the fund are exempt from income tax liability.

The tax deferral for money placed in a CCF continues even when money is withdrawn from the fund, provided the withdrawal is for the acquisition, construction or reconstruction, or a qualified indebtedness incurred in connection with the acquisition, construction or reconstruction, of a qualified U.S. vessel. Shipbuilders using a CCF to finance vessels may use only one-half of the otherwise allowable investment tax credit.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Tax Expenditure	30.0	40.0	130.0	40.0
Direct Expenditure Equivalent	35.0	40.0	130.0	40.0

Construction Reserve Fund

Agency: DOT
Industry: Shipping
Type of Subsidy: Tax Expenditure
Purpose: SDK
FY85 Funding: NA

The Construction Reserve Fund (CRF) was established as a method of promoting the construction, reconstruction, reconditioning or acquisition of merchant marine vessels that are necessary for U.S. national defense and commerce. The CRF is a financial

---

*Includes search and rescue, navigational aids, marine safety, and environment programs.

assistance program that provides tax deferral benefits to U.S.-flag operators. Under the CRF, a fund holder may deposit gains attributable to the sale of or indemnification for loss of vessels and defer the tax on gains if the gains are to be reinvested in vessels. In addition, the CRF permits the accumulation of earnings from the operation of vessels documented in the United States or the earnings from the investment of the fund.

The ability to accumulate funds and the allowance of a tax deferral have enabled fund holders to construct or reconstruct in the United States larger and better equipped vessels than would have been possible without the fund. In 1984, there were 11 CRF contracts totaling approximately $10 million.

To be eligible for the CRF, a taxpayer must be a U.S. citizen who owns, in whole or in part, a vessel(s) operating in the foreign or domestic U.S. commerce or in U.S. fisheries. In addition, any U.S. citizen who operates such a vessel owned by another person may establish a CRF. The budgeting impact of this tax program has not been calculated because it is assumed to be less than $10 million.

U.S. Army Corp of Engineers
Navigational Activities

Agency: DOD
Industry: Shipping
Type of Subsidy: Free of Charge Services
Purpose: SIS
FY85 Funding: $1.076 billion

The U.S. Army Corp of Engineers is responsible for federally financed construction projects to improve the navigational system in the United States, including construction related to channels and harbors and locks and dams. The Corp of Engineers also is responsible for the operation and maintenance of many of these same systems. These navigational infrastructure expenditures are an indirect subsidy to the shipping industry.

Although state, local, and regional agencies also play a large role in financing this type of water resource activity, historically the federal financial involvement has been relatively significant. Construction projects of this nature are politically popular with Congress because of the potential economic benefits they can provide to a congressman's home district. However, budget pressures are taking their toll on the federal government's willingness to finance water resource projects, and the Reagan Administration has been lobbying strongly for new cost-sharing measures to require states and localities and other project beneficiaries to pay their share of the cost of these improvements.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Construction	491.0	366.0	376.0	329.0
Operation and Maintenance	672.0	665.0	700.0	758.0

COMMUNITY, REGIONAL, AND URBAN DEVELOPMENT PROGRAMS

Introduction

A widely varying group of programs can be categorized as community, regional, or urban development programs. Most of them have as their main purpose the stimulation of local or regional economies through government spending. However, some programs merely promote community or regional development as a side effect. For example, the Urban Mass Transit Grants program has as its primary function the development-coordinated public transportation system, but also serves as a regional development program.

The Appalachian Regional Commission and the Tennessee Valley Authority both were designed to respond to the uniquely distressed economy of the Appalachian region, while the newer community assistance programs, such as Urban Development Action Grants and Community Development Block Grants were intended to deal with the more pressing current problem of urban economic blight. All of these programs, however, are criticized for failing to funnel federal economic assistance resources to the most needy areas.

The Reagan Administration has been particularly vocal in arguing for the reduction or elimination of most of these programs because of the need to reduce federal spending and because of the Administration's belief that these development needs could be better addressed by states or localities. While each community or regional development program has strong congressional support, particularly from those congressmen who represent the program's beneficiaries, the program funding data show that the Administration has had considerable success in reducing expenditures for these programs over the past several years.

Economic Development Administration

Agency: DOC
Industry: General
Type of Subsidy: Grants, Loan Guarantees
Purpose: RCD
FY85 Funding: $262.5 million

The Economic Development Administration (EDA) provides grants to state and local governments for public works, technical assistance and job programs, as well as loan guarantees to individual firms for business development purposes. The primary purpose of EDA is to encourage local economic development. The authority for EDA's assistance programs comes from the Public Works Employment Act of 1976 and the Community Emergency Drought Relief Act of 1977.

The direct assistance to business comes through the EDA's Business Development Assistance program which provides government loan guarantees for as much as 80 percent of the unpaid balance of private loans made to businesses for the acquisition of fixed assets for working capital. The goals of the program are to help retain jobs and expand industrial facilities in redevelopment areas. The program's guarantee obligations totaled $8.8 million in FY84.

Communities are eligible for the EDA programs if they meet a set of eligibility requirements based on area poverty and unemployment rates, migration statistics and

population. Critics have complained that the eligibility criteria are so broad that qualifying areas contain 80 percent of the U.S. population and some of the most affluent areas of the nation. As a result, assistance is provided to areas that are not truly "distressed." The program also has been criticized by the Administration for distorting decisions on locating business facilities and substituting public for private credit.

The Reagan Administration FY87 budget proposal has recommended that the program be terminated.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	268.5	266.0	230.7	183.5
Outlays	264.9	252.1	262.5	230.3

Urban Development Action Grants

Agency: HUD
Industry: Real Estate Construction
Type of Subsidy: Grants
Purpose: RCD
FY85 Funding: $496.6 million

The Urban Development Action Grants program (UDAG) distributes funds to local governments to finance economic revitalization projects. The objective of the program is to stimulate public and private investment in "severely distressed" cities and in "pockets of poverty" located in nondistressed cities.

The program started in 1978 as a major component of the Carter Administration's urban revitalization initiative. The program is administered by the Federal Department of Housing and Urban Development. In 1986, $316 million was appropriated for this program. Local governments must use funds to support "discrete projects"—generally construction projects. Local governments usually use UDAG grants to make direct loans to private companies.

About 52 percent of all large cities and 35 percent of all small cities are technically eligible for UDAG grants, as a result of Congressional actions to expand eligibility.

UDAG proponents argue that UDAG grants serve as "seed money" and each UDAG dollar results in 5 to 6 times as much private investment. The Administration disputes this estimate and feels that the program should be eliminated. The Administration argues that the program does not "create" jobs, but simply influences the location of jobs by diverting economic investments from one area to another. Critics argue that the ultimate beneficiaries of the program are real estate developers, not the urban poor who were the intended beneficiaries. Statistics seem to indicate that UDAG dollars are inequitably allocated among the nation's states and cities, and that a large share goes to some of the least needy cities. Moreover, a few large real estate developers seem to have "cornered the market" on UDAG grants. According to a Wall Street Journal article dated March 31, 1986, seven large developers have been involved in 9 percent of the UDAG projects since 1981.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	440.0	440.0	440.0	330.0
Outlays	450.7	453.9	496.6	500.0

Community Development Block Grants

Agency: HUD
Industry: Housing, Construction, Others
Type of Subsidy: Grants
Purpose: RCD
FY85 Funding: $3.81 billion

The Community Development Block Grant (CDBG) program makes grants to local and state governments to fund local community development programs, including housing rehabilitation, economic development, and public works. The program was authorized by the Housing and Community Development Act of 1974. CDBG projects are intended to benefit low-income persons in economically distressed area. States and localities may use CDBG funds to assist business when appropriate to carrying out their economic development goals.

The program was created in 1974 by combining several categorical grant programs that were deemed to be ineffective. The grants are allocated on the basis of a formula which distributes 70 percent of the funds to large cities and the remaining 30 percent to smaller cities, Indian tribes or special projects at the Secretary of House and Urban Development's discretion. In 1986, tne program had budget authority that totaled almost $3 billion dollars.

The Reagan Administration argues that the program has not been adequately "targeted," pointing to the fact that one-third of the funds go to minimally distressed areas. The President's FY87 budget proposal recommended a redistribution of about 20 percent in the program's funding and eligibility changes to assure that CDBG funds go to the most needy areas.

(billions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	4.45	3.46	3.47	3.12
Outlays	3.55	3.81	3.81	3.57

Urban Mass Transit Grants

Agency: DOT
Industry: General
Type of Subsidy: Grants
Purpose: SD
FY85 Funding: $1.97 billion

The Department of Transportation, through the Urban Mass Transit Administration, provides about $3 billion annually for local transit programs. About $1 billion goes for the Urban Mass Transit Capital Improvement Grants program which provides assistance

to public transit authorities for major capital improvements and construction. The discretionary grants may cover up to 75 percent of project costs. In addition, about $2 billion is provided to public transportation authorities for capital improvements and operating expenditures through the Urban Mass Transit Capital and Operating Assistance Formula Grants program, which distributes funds based on a statutory formula which takes into effect such factors as population, population density, passenger miles, etc. The program pays up to 80 percent of capital expenditures and 50 percent of operating expenditures. In addition, a special program provides about $200 million for the Washington, D.C. metro system.

Federal mass transit expenditures indirectly subsidize certain localities and regions at the expense of others, commuters who benefit from below-cost fares, and area businesses who benefit from enhanced property values and stimulative effect of mass transit construction expenditures.

The Reagan Administration has recommended that these grants be combined with federal grants for local highway development (currently totaling about $2.9 billion) into a single Ground Transportation Block Grant program. The Administration has suggested total combined spending of about $3 billion for the new program.

(billions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	2.28	3.88	3.79	2.54
Outlays	2.36	1.69	1.97	2.08

The Appalachian Regional Commission

Agency: Independent
Industry: General
Type of Subsidy: Grants
Purpose: RCD
FY85 Funding: $203.5 million

The Appalachian Regional Commission is a cooperative state-federal agency that administers programs to assist the economic and social development of the 13 state Appalachian region. The region includes parts of Alabama, Georgia, Kentucky, Maryland, Mississippi, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia and all of West Virginia.

The commission was created by Congress in 1965 to address the needs of the Appalachian region, which lagged behind the rest of the nation in terms of economic development. The commission provides grants for housing, health, and educational programs, roads, highways, and other community development needs. Over the life of the program, expenditures have totaled $5.2 billion.

The Reagan Administration believes that the economics of the region have improved since the inception of the program to the point where these special efforts are no longer justified. While Congress has rejected the Administration's suggestion that the program be terminated, Congress has reduced spending for the commission by roughly one-half since Reagan took office.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	165.1	159.4	151.3	35.9
Outlays	263.4	212.1	203.5	154.3

The Tennessee Valley Authority

Agency: Independent
Industry: Electricity Consuming Industries
Type of Subsidy: Grants
Purpose: RCD
FY85 Funding $914.3 million

The Tennessee Valley Authority (TVA) is a Government-owned corporation that conducts a unified program of resource development for the advancement of economic growth in the Tennessee Valley region. The Authority's program of activities includes flood control, navigation development, electric power production, fertilizer development, recreation improvement, and forestry and wildlife development. While its power program operates similarly to a Federal Power Marketing Agency (see page 49), other programs are financed by appropriations from Congress and by nonfederal funding sources.

Budget appropriations for TVA totaled over $600 million in FY86, with over $500 million of that going to TVA's energy and power programs.

The Reagan Administration's FY87 budget proposal recommends the elimination of the regional economic programs of the TVA, but not the power programs.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	762.3	449.7	774.9	621.8
Outlays	869.0	351.1	914.3	420.0

Industrial Development Bonds

Agency: IRS
Industry: General
Type of Subsidy: Low Interest Rate Financing
Purpose: SDK
FY85 Funding $3.69 billion

Local and state governments currently issue bonds for a broad array of purposes. Interest on these bonds is not taxed at the federal level nor, for the state's residents, at the state level. At one time, these tax-exempt bonds were used only to finance public projects (hospitals, schools, etc.) Since 1968, the federal government has extended the tax exemption on state-issued bonds to private use for small projects. The state or local government raises money through the bond that it makes available to a private business at an interest rate that is lower than market rates because of the tax exemption on

interest payments. In the past two decades, and especially since the late 1970s, the use of tax-exempt bonds has shifted with an enormous rise of private purpose bonds, or industrial development bonds (IDB). At first, some localities lured businesses by building industrial parks with tax-exempt financing or by offering a business the use of IDB funds. Gradually, IDBs became an important feature in packages assembled by local jurisdictions to attract businesses or to dissuade them from relocating elsewhere.

The growth in IDBs was too much of a good thing. It led to an increasing drain on federal revenues and adverse publicity about abusive cases, such as avoidance by large companies of limits on the amount of IDB financing available to any one business and even the use of IDBs to finance adult bookstores and massage parlors.

Congress has moved in recent years to curb the private purpose use of IDBs. Yet even after the pending tax reform legislation, some availability of IDB financing will continue for businesses.

(billions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Tax Expenditure	2.08	2.70	3.62	4.21
Direct Expenditure Equivalent	3.56	3.32	3.69	4.30

SMALL BUSINESS ADMINISTRATION PROGRAMS

Introduction

The fundamental purposes of the Small Business Administration (SBA), an independent federal agency which was created in 1953, are (1) to aid, counsel, assist, and protect the interest of small business, and (2) to ensure that small business concerns receive a fair portion of government purchases, contracts, and subcontracts.

The SBA makes loans to small business concerns, state and local development companies, flood victims, as well as those who are subject to certain types of economic injury.

Criteria for determining the eligibility of a small business are as follows:

1) Is the business independently owned and operated, and is it dominant in its field?
2) How many people are employed? (Manufacturers are allowed from 500 to 1500 employees depending on the industry, while wholesalers are allowed up to 500 employees.)
3) What are the business' revenues? (Retailers and service concerns may have up to $13.5 and $14.5 million respectively; agricultural enterprises need gross sales of $0.1 million, but may not exceed $3.5 million.)

Eligibility requirements may change depending on the specific program. The interest rate on SBA loans is determined by the prime rate. Loans of less than seven years have an interest rate 2-1/4 percent about the prime rate and loans longer than seven years have a rate 2-3/4 percent above the prime. The SBA will guarantee 90 percent of a loan up to $155,000 and 85 percent above that level.

The Reagan Administration has advocated the elimination of SBA's credit programs on the grounds that private financing is available to commercially viable small businesses. The Administration recommends that the remaining noncredit programs be transferred to the Commerce Department, eliminating the need for an independent SBA. So far, however, Congress has fought to maintain the SBA in its current form, although it agreed to substantial reductions in expenditures.

Economic Injury Disaster Loans (EIDL)

Agency: SBA
Industry: Small Business
Type of Subsidy: Loans and Guaranteed Loans
Purpose: ESP
FY85 Funding: $30,000

The main objective of this program is to assist business concerns suffering economic injury as a result of certain disasters declared by the President, SBA, and/or Department of Agriculture. Assistance is provided in the form of direct and guaranteed/insured loans, which are not to exceed $500,000.

(millions of dollars)

	FY83	FY84	FY85
Loans	14.4	0.084	0.030

Physical Disaster Loans

Agency:	**SBA**
Industry:	**Small Business**
Type of Subsidy:	**Loans and Guaranteed Loans**
Purpose:	**ESP**
FY85 Funding	**$300 million**

In order to help homeowners, renters and businesses to repair and/or replace damaged and/or destroyed real property and/or personal property to pre-disaster condition, the SBA has provided a program to assist victims of physical disaster.

Assistance is provided in the form of direct loans and guaranteed/insured loans.

	FY83	FY84	FY85	FY86 (est.)
Number of Loans	9,683	13,026	5,221	NA
Total Value (millions of dollars)	184.0	314.0	300.0	300.0

Loans for Small Business

Agency:	**SBA**
Industry:	**Small Business**
Type of Subsidy:	**Loans and Guaranteed Loans**
Purpose:	**SBD**
FY85 Funding:	**$116 million**

The SBA provides loans to assist in establishing, preserving, and strengthening small businesses owned by low-income persons or located in areas of high unemployment. Assistance is in the form of direct loans, guaranteed/insured loans, advisory services and counseling. Loan obligations for FY84, 85, and 86 are as follows:

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Direct	16.5	18.5	46.0	0
Guaranteed	30.5	50.8	70.0	60.0

It should be noted that the publishing media, nonprofit enterprises, speculators in property, lending or investment enterprises, and financial real property held for investment are excluded from receiving assistance under this program.

Small Business Loans

Agency:	**SBA**
Industry:	**Small Business**
Type of Subsidy:	**Loans and Guaranteed Loans**
Purpose:	**SBD**
FY85 Funding:	**$3.1 billion**

The main objective of this program is to aid small businesses which are unable to obtain financing in the private credit market. Assistance is provided in the form of

direct and guaranteed/i sured loans to help the small business with projects that range from construction to conversion of facilities.

Direct loans for FY84 and FY85 were $91 and $110 million respectively, while guaranteed loans for those years were $2 and $3 billion respectively.

This program should not be confused with a program entitled "Loans for Small Businesses." The businesses excluded are the same, except for the addition of gambling establishments. The main difference, however, is seen by comparing each program's main objective. Loans for Small Businesses provides assistance to low income persons, where this program doesn't make that stipulation.

(billions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Direct Loans	0.085	0.091	0.11	NA
Guaranteed Loans	2.00	2.00	3.00	NA

State and Local Development Company Loans

Agency: SBA
Industry: Small Business
Type of Subsidy: Guaranteed Loans
Purpose: SBD
FY85 Funding: $25 million

This program makes federal funds available to state and local development companies to provide long-term financing to small business concerns located in their areas. Both state and local development companies are defined as any corporation chartered for the purpose of promoting economic growth within a specific area.

Assistance is provided in the form of guaranteed/insured loans. FY84 showed loan guarantees of $30 million, while FY85 only showed $25 million.

It is important to remember that this program usually requires, according to SBA sources, that small businesses receiving loans must have 50 percent of the project financed by a bank and provide 10 percent of the financing themselves. The state or local development company usually provides only 40 percent of the financing.

(millions of dollars)

	FY83	FY84	FY85
Guaranteed Loans	26.0	30.0	25.0

Bond Guarantees for Surety Companies

Agency:	**SBA**
Industry:	**Small Business**
Type of Subsidy:	**Guaranteed Loans and Guaranteed Surety Bonds**
Purpose:	**SBD**
FY85 Funding	**$900 million**

The main objective of this program is to encourage the commercial surety market to make surety bonds more available to small contractors unable for various reasons to obtain a bond without a guarantee. The contractor must apply to an insurance agent/broker. The agent/broker in turn contacts a surety company to process the bond request. The surety company will deal directly with the SBA.

In order for a surety company to participate in this program, it must hold a certificate of authority from the Secretary of the Treasury.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Bond Guarantees	567.0	571.0	900.0	1,000

Small Business Energy Loans

Agency:	**SBA**
Industry:	**Small Business**
Type of Subsidy:	**Loans and Guaranteed Loans**
Purpose:	**SBD**
FY85 Funding:	**$1 million**

This program is designed to assist small business concerns to finance plant construction, expansion, conversion, or startup; and the acquisition of equipment facilities, machinery supplies or materials to enable such concerns to manufacture, design, market, install or service specific energy measures. Eligibility requirements emphasize that the business must furnish evidence of being engaged in an eligible energy measure, with state and local governments not being eligible.

Assistance is provided in the form of direct and guaranteed/insured loans. Direct loans for FY84 and FY85 were $316,000 and $0 respectively while loan guarantees were $1.5 million and $1 million respectively.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Direct Loans	0.42	0.316	0	NA
Guaranteed Loans	3.20	1.50	1.00	NA

Handicapped Assistance Loans (HAL)

Agency: SBA
Industry: Small Business
Type of Subsidy: Loans, and Guaranteed Loans
Purpose: SD
FY85 Funding: $25 million

The HAL-2 section of this program assists with the establishment, acquisition and/or operation of a small business by a handicapped person. (HAL-1 deals only with handicapped workshops.) Eligibility requirements for the HAL-2 program state that the handicap must be of such a nature so as to limit the individual from engaging in normal competitive business practices.

Assistance is provided in the form of direct and guaranteed/insured loans. The interest rate on HAL loans is 8¼ percent.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Direct Loans	14.8	16.0	24.0	NA
Outlays	1.60	0.40	1.00	NA

(These figures represent a combined total for HAL-1 and HAL-2. An agency official noted, however, that 75 percent of those figures were directed toward the HAL-

Small Business Investment Companies

Industry: Small Business
Type of Subsidy: Loans and Guaranteed Loans
Purpose: SBD
FY85 Funding: $270 million

The main objective of this program is to make equity and venture capital available to the small business community with the maximum private sector participation, and a minimum of government interference. Private investment companies are licensed by the government to invest in new ventures, with an emphasis on providing assistance to the pioneering, innovative type concerns developing new products processes, and markets. Section 301(d) of this program is aimed at the minority businesses in the U.S. to ensure a well balanced national economy.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Direct Loans	27.0	37.5	40.0	NA
Guaranteed Loans	160.0	159.0	230.0	NA

Currency Fluctuation Economic Injury Loans

Agency:	**SBA**
Industry:	**Small Business**
Type of Subsidy:	**Loans and Guaranteed Loans**
Purpose:	**SBD**
FY85 Funding:	$5 million

This program is designed to assist small business concerns suffering substantial economic injury as a result of a drastic devaluation of the currency of a country continguous to the United States. Funds can be used to pay current liabilities which small business would have paid if the currency devaluation had not occurred. There is a $500,000 limit on this lending.

The program did not exist prior to 1984.

Certified Development Company Loans

Agency:	**SBA**
Industry:	**Small Business**
Type of Subsidy:	**Guaranteed Loans**
Purpose:	**SBD**
FY85 Funding:	**$300 million**

This program is assisting small businesses in the acquisition of land and buildings, construction, expansion, renovation and modernization of machinery and equipment by providing long-term financing through the sale of debentures by the Federal Financing Bank.

(millions of dollars)

	FY83	FY84	FY85
Guaranteed Loans	270.0	318.0	300.0

TRADE ENHANCEMENT, DUTY, AND TARIFF PROGRAMS

Introduction

The U.S. federal government has a number of programs and policies designed to assist exporters. Several of these programs, such as the Export Trading Company Act, the Foreign Sales Corporation, and Foreign Trade Zones, are designed to encourage U.S. firms to organize and operate in a manner which will enhance their competitiveness in the world marketplace. The Department of Commerce also assists companies to expand their exports through Commercial Service Offices located in most major U.S. cities. These offices council and advise companies on how to increase export sales. The Commerce Department also has Foreign Service Offices in 66 foreign countries to promote and facilitate the sale of U.S. goods and services abroad.

The most important form of financial assistance to exporters is the Export-Import Bank of the United States, which finances foreign purchases of U.S. goods and services through direct loans offered at concessionary interest rates or guaranteed loans.

Certain tariff and duty regulations also are designed to promote export of U.S. products. Through a procedure known as drawback, a refund is available for duties paid on imported goods subsequently exported or used in an export product. Also, the duty on U.S. components which are assembled into a finished product in another country can be refunded when the finished product is shipped to the United States.

Trade Adjustment Assistance

Agency: DOC
Industry: General
Type of Subsidy Loans and Guaranteed Loans
Purpose: ADJ
FY85 Funding: $6.58 million

Trade Adjustment Assistance (TAA) is designed to aid firms and industries adversely affected by increased imports. Assistance is provided in the form of direct loans, guaranteed/insured loans, and counseling and technical information. (There is another assistance program, administered by the Department of Labor, which benefits workers who are displaced by increased imports.)

However, as of December 18, 1985, all TAA programs were put on hold and all benefits ceased to exist (including benefits for displaced workers). A new statute was enacted which reauthorized workers' benefits, but only reauthorized counseling and technical information services for firms and industries.

Past loans and cooperative agreements totaled $23,000,000 for FY84 and $6,583,000 for FY85. It was the opinion of those TAA officials contacted that the next year would not see a return of the direct loan and guaranteed/insured loans to businesses.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Loans and Guaranteed Loans	14.4	23.0	6.58	—

U.S. Foreign Trade Zones

Agency:	DOC
Industry:	General
Type of Subsidy:	Duty Remission
Purpose:	OCR/EP
FY85 Funding:	NA

Foreign-Trade Zones are designated areas in the United States considered to be outside of the Customs territory of the United States for purposes of importing and exporting products. Foreign and domestic merchandise may be brought to the Foreign-Trade Zone for storage, exhibition, assembly, manufacture, or other processing. The usual customs entry procedures and payment of duties are not required on foreign goods brought into a Foreign-Trade Zone unless and until they leave the zone and enter normal customs territory for domestic consumption. When entry duties are paid, the importer has a choice of paying the duty on either the original imported material or the finished product. Quota restrictions normally do not apply to foreign goods in Foreign-Trade Zones, and domestic goods brought into a Foreign-Trade Zone are considered exported for the purposes of drawback and excise tax rebates upon entering the Foreign-Trade Zone.

The Foreign-Trade Zones are the U.S. equivalent of "free trade zones" found in other nations. The zones are located in or near U.S. Customs ports of entry. The zones are sponsored by qualified corporations, who operate the zones on a "public utility" basis, charging published rates to users. Typically, zones provide leasable storage space and access to different forms of transportation. Often the zones are part of an industrial park, and zone users can construct their own facilities, known as subzones, within the Foreign-Trade Zone.

The Foreign-Trade Zone Act of 1934 provides the authority for this program. It is overseen by an interagency board chaired by the Secretary of Commerce. In its most recent annual report the Foreign Trade Zone Board reported that 107 zones existed, that $3.4 billion in goods were received into the zones, and $810 million in goods were exported from general purpose zones, 53 percent of shipments leaving the zones.

Tariff Treatment on Reimport of U.S. Product (TSUS 807)

Agency:	Treasury
Industry:	General
Type of Subsidy:	Duty Remission
Purpose:	EP
FY85 Funding:	NA

Item 807 of the Tariff Schedules of the United States notes that U.S. products shipped abroad, which are used to complete a part of a finished product or are assembled into a finished product, are entitled to a refund of any duty levied as a result of being shipped back into the U.S. The purpose of this provision is to encourage the export of U.S.-manufactured components or subassemblies.

Department of Commerce Export Promotion and Trade Development Services

Agency: DOC
Industry: General
Type of Subsidy: Free of Charge Services
Purpose: EP
FY85 Funding: $79 million

The International Trade Administration, a part of the Department of Commerce, has 47 Commercial Service District Offices working to promote U.S. exports by assisting local firms develop their export potential. Their focus primarily is on small- and medium-sized businesses. Export promotion services include counseling and publications to stimulate awareness of export potential; information on trade opportunities; guidance on market identification; assistance in sales promotion, including DOC-sponsored trade exhibits, trade missions, etc.; and information on foreign tariffs, customs regulations, and procedures. Also, in recent years, district offices have devoted an increasing portion of their resources to assisting businesses comply with U.S. export control regulations. The service also has programs to match U.S. exporters with agents or distributors in importing countries, to help U.S. firms bid on large construction and engineering projects, to develop contacts among potential importing firms, to publicize American products in foreign markets, and to resolve trade disputes. In addition, the Department of Commerce maintains Foreign Commercial Services Offices in 66 foreign countries.

A related program is Trade Development Assistance, which provides industry-specific economic analysis of trade possibilities to U.S. firms in order to foster competitiveness and participation in international markets.

In FY86, the Commercial Service District Offices have been allocated a total staff of 361, including about 225 trade specialists who work directly with businesses.

In 1984, the service claimed that $1.14 billion in new exports resulted from district office activities, but this accomplishment may be substantially overstated.

The President's Private Sector Survey on Cost Control has recommended that the district offices be phased out and that export promotion activities be consolidated in Washington on the grounds that most of the dollar value of export increases result from assistance to a small number of firms and that devoting substantial resources to low-potential exporters is inefficient.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	79.8	79.5	79.0	76.7

(Numbers include domestic and foreign commercial services)

Export-Import Bank of the United States (Eximbank)

Agency: Independent
Industry: General
Type of Subsidy: Government Credit
Purpose: EP
FY85 Funding: $8.5 billion

The Export-Import Bank of Washington was established in 1934 by presidential order under the authority of the National Industrial Recovery Act (NIRA). The bank was

continued as an agency of the United States government until 1945, when the Export-Import Bank Act established it as an independent agency. On March 13, 1968 the name was changed to the Export-Import Bank of the United States (Eximbank).

The bank's main objective is to attempt to increase U.S. exports by providing loans and loan guarantees to foreign purchasers of U.S. merchandise. However, it is noted that the bank should supplement and encourage, but not compete with private capital. Specifically, Eximbank provides medium and long-term fixed rate financing in supporting American exporters who face officially supported foreign competition in the world market. Through a direct loan program the bank subsidizes interest rates, while their loan guarantee program encourages commercial banks to extend credit to foreign buyers. About 80 to 90 percent of Eximbank financing takes the form of guaranteed loans. For purposes of determining the interest rate on Eximbank loans, borrowing countries are placed in three categories—rich, intermediate, and poor. Rich nations pay a rate of 9.8 percent on five-to-10-year loans and 9.5 percent on two-to-five-year loans. Intermediate nations pay 8.75 percent on five-to-10-year loans and 8.25 percent on two-to-five-year loans. Poor nations pay 7.4 percent on both types of loans.

Between 1981 and 1985, the bank's level of new direct loans fell from $5.4 billion to $0.7 billion with total loan and guarantee/insurance activity for FY84 and FY85 being $8.6 and $8.4 billion respectively. In response to this situation, and to ensure that the bank will be able to meet future challenges, a reorganization was announced. John A. Bohn, Jr., Eximbank's President and Chairman noted that, "We are placing a premium on cost effectiveness, risk management, program innovation, and, above all, service to exporters." Also, Congress currently is considering a proposal to sell some Eximbank loans, probably at less than face value, to raise revenue to help reduce the deficit.

(billions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Loans and Guaranteed Loans	9.36	6.61	8.50	NA

Overseas Private Investment Corporation (OPIC)

Agency: Independent
Industry: General
Type of Subsidy: Government Insurance
Purpose: EP
FY85 Funding: $166.1 million

The Overseas Private Investment Corporation (OPIC) was created by the Foreign Assistance Act of 1969 to assist U.S. investors in making profitable investments in developing countries. By mobilizing and facilitating the flow of U.S. private capital and skills to these countries OPIC helps the social and economic climate of the country involved, as well as the U.S. balance of payments, through the profits returned to the United States. In 1975, OPIC received a $106 million appropriation from Congress to help fund its operations. This amount has since been repaid and OPIC is now self-financing and operates profitably.

OPIC's main objectives are to: (1) direct and assist U.S. private capital into developing countries, (2) help finance eligible projects sponsored by U.S. investors, and (3) to provide insurance for U.S. private investments.

The corporation meets these objectives through:

(1) A *pre-investment assistance program* that not only provides investment information and counseling, but also provides a computerized project called matching.

(2) Direct investment fund loans offered to small- and medium-sized businesses, generally covering terms from seven to 12 years, and ranging in value from $100,000 to $4 million. Interest rates vary depending on the risks of the financed project and the cost of money. The rate is currently 10 percent.

(3) Foreign investment insurance which insures U.S. investors against the risks of inconvertibility, expropriation, war, revolution, and certain types of civil strife.

In recent testimony before Congress, OPIC President Craig A. Nalen reviewed the agency's finance programs and stressed their use by smaller businesses. It was noted that since 1981 more than 70 percent of OPIC's annual project finance commitments have involved small businesses. Further testimony revealed that of the total number of direct loans made since 1984, more than half have been made to projects in the Caribbean Basin, while more than 40 percent, or $214.9 million of the loan guarantees committed, represent funding for projects in sub-Saharan Africa.

Currently OPIC has suspended its investment encouragement programs, but Nalen states that he hopes they will eventually be restored. He noted his support for the programs and pointed out they provide valuable assistance for small businesses.

A key element of the Reagan Administration's FY87 fiscal budget plan is the proposed sale or transfer of OPIC to the private sector. The privatization proposal calls for an interagency task force to examine all the options. Sources close to OPIC feel the agency's record performance in FY85 will ensure its move to the private sector.

(millions of dollars)

FY83	FY84	FY85	FY86 (est.)		
Loans, Guaranteed Loans, and Pre-Investment Assistance	111.1	111.1	166.1	NA	

Export Incentives - The Foreign Sales Corporation

Agency: IRS
Industry: Exporting
Type of Subsidy: Tax Expenditure
Purpose: EP
FY85 Funding: $910 million

Under current law, the U.S. does not apply its income tax to qualified income from exports when the exporter uses a Foreign Sales Corporation (FSC). FSCs are generally foreign incorporated subsidiaries of U.S. parent corporations engaged in exporting. To qualify as an FSC, a corporation must be organized under the laws of a jurisdiction outside the United States and must meet certain foreign presence requirements. In particular, a FSC must have a bona fide sales operation. Also, a FSC must meet foreign management and economic processes tests that do not apply in the case of the export income of a small FSC, which is available for up to $5 million of export receipts.

If a corporation meets the requirements to be a FSC then it will have 16 percent of its export income exempted from U.S. tax liability. In addition, corporate shareholders will have an extra 15 percent of their income exempt from tax liability. The remaining export income and shareholders' income above the exemption levels are subject to U.S. tax.

In addition to the FSC rules, small companies may use another set of rules, the Domestic International Sales Corporation (DISC) rules, to defer a portion of income tax liability on export sales, simply by setting up an export sales subsidiary (the DISC), frequently on paper only. Under DISC rules, a corporation may defer the tax up to but not exceeding $10 million of export receipts. Those who choose to use the DISC rules, however, must pay interest on the deferral of taxes based on the treasury bill rate. DISC was the predecessor of FSC. When Congress changed to the FSC in 1982 under pressure from GATT trading partners, there was concern that small exporters could not afford the expenses of setting up an offshore sales office to meet the FSC requirements.

The FSC and DISM incentives are viewed by domestic and foreign critics as a naked export subsidy. Defenders assert that these incentives (1) put the U.S. on a comparable basis with foreign companies, albeit with a different approach, and (2) offset the incentives for U.S. companies to locate operations in foreign countries, namely the foreign tax credit and the deferral on nonrepatriated foreign earnings.

(billions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Tax Expenditure	0.95	0.85	0.91	1.03
Direct Expenditure Equivalent	4.16	1.42	1.51	1.55

Export Trading Companies

Agency: DOC
Industry: General
Type of Subsidy: Cartel
Purpose: EP
FY85 Funding: NA

The 1982 Export Trading Company Act was passed by Congress to encourage the formation of American trading companies and associations to increase U.S. exports of goods and services. It was hoped that the formation of export trading companies would help American businesses obtain capital to finance export operations and help streamline and simplify export transactions for smaller firms.

The act defines an export trading company (ETC) as a person, partnership, or association founded principally to export U.S. goods or to assist unaffiliated organizations in exporting U.S. goods. An ETC may be a profit-making or nonprofit organization. It may be owned by Americans or foreigners, and while its principal purpose may be exporting, it can engage in a limited amount of importing or third-party trade.

The 1982 Export Trading Company Act amended U.S. international trade law to allow banks and holding companies to own export trading companies. It also allows export trading companies to obtain certification in advance that their activities do not

violate antitrust laws. This provision was intended to remove the uncertainty about the legality of export trading companies that was thought to inhibit their development.

Most trade experts see the law as a step in the right direction, but formation of export trading companies has been slower than expected because of the reluctance of banks to embrace the concept and strict regulation of export trading companies under the act.

ENERGY

Introduction

The federal government plays a large and diverse role in the energy sector which includes: (1) activities to support civilian uses of nuclear energy, such as the uranium enrichment service, nuclear research and development, and waste management activities; (2) management of the nation's publicly owned energy resources, including onshore and offshore oil and gas reserves and the federal power marketing administrations, which sell power produced by federal hydroelectric projects; (3) research and development activities related to the development of unconventional fuel sources; (4) regulation of the price of some energy commodities, such as natural gas; and (5) encouraging private sector development of both conventional and nonconventional energy sources, mainly through tax programs.

While the government's role in energy development is not new, it was reinforced and enhanced during the "energy crisis" of the 1970s, when there was a national consensus regarding the need for extraordinary measures to guarantee the energy security of the nation and to develop alternate energy supplies. The Reagan Administration has challenged this consensus regarding the need for government involvement in the energy marketplace, particularly in terms of price regulation. The President accelerated the decontrol of oil prices soon after taking office and has advocated the elimination of all natural gas price controls. The Administration has also advocated a greater role for market forces in other energy policies, such as energy-leasing policies.

The politics of energy issues are colored by the average voter's concern about the price of essential energy commodities—gasoline, fuel oil, and natural gas for residential heating. Concern for the consumer argues for keeping prices low, while concern about the adequacy of supply argues for providing price incentives for producers. The result of these competing policy goals is a number of conflicting policies—such as policies which regulate natural gas prices at below market levels and policies which support the price for synthetic fuels at above market levels.

The politics of energy issues also are colored by the public's perception of the major oil and gas producers. Although the energy industry has fallen on bad times recently, during the height of the energy crisis there was a great deal of public resentment about high oil prices and the major oil companies often became scapegoats for the public's frustration. And, particularly in energy-consuming areas of the country, this sentiment against special privileges for oil producers continues. Nonetheless, the oil industry is a powerful lobby whose influence on U.S. energy policy should not be discounted.

Rural Electrification Administration

Agency: USDA
Industry: Agriculture, Electric Utilities
Type of Subsidy: Loans and Loan Guarantees
Purpose: RCD
FY85 Funding: $636 million

The Rural Electrification Administration (REA) in the Department of Agriculture provides direct loans and loan guarantees for the construction and operation of rural electric systems. The objective of the program is to assure that people in eligible rural

areas have access to electric services comparable in reliability and quality to the rest of the nation.

Eligible areas are those already served through REA or rural areas not within the boundaries of a city of more than 1,500 inhabitants. Generally the loans are provided to electrical cooperatives that construct transmission and distribution systems. Electricity users in rural areas, primarily agricultural producers, and electric utilities who are provided with an expanded market for their power also benefit from the program.

Through the end of 1983, REA borrowers were serving about 10.5 million consumers and REA-financed systems had total sales of about 187 billion kilowatt hours annually. The REA currently charges an interest rate of 5 percent on its direct loans.

According to the President's FY87 budget proposal, total REA loans outstanding are estimated to be $38.1 billion at the end of 1986.

The Administration has recommended that REA lending programs be phased out by 1990, by decreasing loan obligations over the next several years and increasing the interest rate to 1-1/8 percent above the Treasury's borrowing rate. This change, however, requires legislative approval, and is likely to be strongly opposed by Congressional representatives from rural areas.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	850.0	850.0	562.0	650.0
Outlays	3,380	897.0	74.0	850.0

Federal Power Marketing Administrations

Agency: DOE
Industry: Electric Utilities, Aluminum, Others
Type of Subsidy: Below-Cost Service
Purpose: OCR
FY85 Funding: $573.1 million (BA)

Five federal Power Marketing Administrations (PMAs) sell electricity generated by federal hydropower projects. These five administrations, which fall under the jurisdiction of the Department of Energy, include the Alaska Power Administration, the Bonneville Power Administration (which operates in the Pacific Northwest), the Southeastern Power Administration, the Southwestern Power Administration, and the Western Area Power Administration. Together, these agencies market electricity generated at 123 federal dams and account for 6 percent of electrical power produced in the United States. If the TVA's electrical capacity is included, the federal government accounts for 9.5 percent of electrical capacity (see page 35).

Over the past 50 years, the federal government has made sizable investments in these electrical facilities. Although the federal investment in power facilities is intended by law to be repaid to the Treasury, to date, repayment has rarely occurred. According to the Office of Management and Budget (OMB), PMAs have repaid less than 20 percent of the $15.6 billion federal investment. In addition to these long-term capital expenditures, the federal government must provide funds for the operation and

maintenance of these power administrations. Congress has appropriated roughly $500 million annually in each of the past several years to cover the revenue and borrowing needs of the PMAs.

As a result of the sizable federal financial support, PMAs are able to sell power at subsidized rates. On average, the wholesale price of federal power is about one-third cheaper than power from private sources, according to the Heritage Foundation. OMB estimates that residential power rates in the Bonneville service area are only 46 percent of the national average. Industrial customers of both investor-owned and publicly owned utilities which purchase cheap power from the PMAs also benefit. For example, the U.S. aluminum industry is a major beneficiary of the subsidized PMA system. Because aluminum production is highly electricity-intensive, most of the plants have located near these cheap sources of electricity. Thirty-five percent of U.S. aluminum production capacity is located in the Bonneville Power Administration service area and 14 percent is located in the TVA service area.

The Reagan Administration has proposed privatizing the PMAs by selling all transmission and power-generating facilities to either private or regional entities on the grounds that utilities are not normally the function of the federal government and that privatization would enhance efficiency. The Administration estimates that privatization of the PMAs could save $1.6 billion in 1988 and $12.7 billion between 1987 and 1991. The Heritage Foundation feels the Administration's estimate of the budget impact of the sale of the PMAs is an underestimate because it is based on original cost rather than current market value of the assets. They estimate that sale of the five PMAs could yield $62 billion for the Treasury, or $100 billion if TVA is sold as well. The privatization initiative is intensely opposed by congressional representatives from the regions that benefit from cheap federally subsidized power and by the public utilities, who are given a preference over investor-owned utilities in the purchase of PMA-generated power.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	592.4	551.4	573.0	558.3
Outlays	245.6	-40.1	-99.9	235.0

Uranium Enrichment Services

Agency: DOE
Industry: Electric Utilities
Type of Subsidy: Below Cost Services
Purpose: NS
FY85 Funding: $1.7 billion

The U.S. Department of Energy provides uranium enrichment services to domestic and foreign commercial realtors and for U.S. weapons programs. The federal government has been in the business of enriching uranium since the 1960s, using its position as a world supplier of enriched uranium to (1) encourage the peaceful use of nuclear energy and (2) prevent the proliferation of nuclear weapons by placing restrictions on the uses of enriched uranium by other countries through treaties and agreements designed to separate civilian and military applications of nuclear energy.

The U.S. enrichment program operates with the legal requirement that it recover over a reasonable period of time the government's costs for the enrichment services through fees charged enrichment customers. But the fees charged have not begun to

recover the government's costs. The program's unrepaid debt to the U.S. Treasury has been estimated to total as much as $7.5 billion. As a result, the service subsidizes the enrichment customers. The General Accounting Office estimated that in FY84 the program had a net operating loss of $1.2 billion, mostly attributable to the unrecoverable capital investment made by the government.

While both Congress and the Administration would like to raise the fees substantially in order to cut the government's losses, U.S. enrichment services are already more expensive than those offered by foreign enrichment enterprises in Europe or the Soviet Union. It is feared that if the United States increases its prices it will lose market share to its competitors. The United States, which once had a monopoly on enrichment services, has lost almost 60 percent of the market to foreign competitors and further erosion of the U.S. market share is considered likely. A large market share is essential to meet the U.S. enrichment program's defense and nonproliferation goals; therefore, the government continues to subsidize the program, although somewhat reluctantly.

The Reagan Administration is exploring possibilities for privatizing the program, but congressional resistance to privatization is sizable and the private sector's interest in the enterprise is likely to be diminished by the program's history of losses, national security restrictions, and the U.S. nonproliferation requirements, which place the U.S. enterprise at a disadvantage internationally.

billions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	1.80	2.20	1.60	1.60
Outlays	1.60	1.80	1.70	1.20

Clean Coal Technology Program

Agency: DOE
Industry: Coal, Electric Utilities
Type of Subsidy: Grants
Purpose: SDR
FY85 Funding: none

In 1985, Congress appropriated almost $400 million to be spent during FY86, FY87, and FY88 to provide financial assistance for the construction and operation of clean coal technology projects to demonstrate their feasibility for future commercial applications. The department is still in the process of reviewing project solicitation proposals. The hope is that upon completion of the government-financed demonstration projects, the private sector will have sufficient information to enable large-scale private commercialization of the new technologies.

One rationale behind the program is an attempt to assist the electric utility industry find methods of burning coal in an environmentally sound manner. Many politicians, as well as the electric utility industry, support these research expenditures as a political gesture to help ease pressure for implementing more stringent emission controls to remedy the acid rain problem.

The clean coal program also is supported by the coal industry, which hopes that new technologies will boost sagging demand for coal. Other politicians view the program as a

more tailored, streamlined successor to the U.S. Synthetic Fuels Corporation, which Congress abolished in 1985.

The program requires a 50 percent cost-sharing requirement for private sector participants.

(millions of dollars)

	FY85	FY86 (est.)	FY87 (est)	FY88 (est.)
Budget Authority	96.7	—	—	—
Outlays	—	99.4	149.1	149.1

Energy Research and Development

Agency: DOE
Industry: Energy
Type of Subsidy: Grants
Purpose: SDR
FY85 Funding: $5.3 billion (BA)

DOE's research and development programs are primarily long-term, high-risk efforts that support a mix of technologies aimed at improving understanding of the fundamentals of matter, improving weapons and naval nuclear propulsion systems, expanding domestic energy supplies, and achieving greater efficiency in energy use. These activities are carried out by university, industry, and government research personnel. DOE is exploring the possibility of cooperative R&D ventures with industry in FY87 in the fossil, conservation, and renewable energy technology areas.

Spending in FY86 is estimated at $5.086 billion in the areas of general science; magnetic fusion; nuclear energy; environment; supporting research and technical analysis; fossil energy; conservation research and development; solar and other renewables; electric energy systems and storage; weapons research, development, and testing; and naval reactor development. FY87 funding is likely to exceed the FY86 budget by at least $378 million.

The Reagan Administration has succeeded in focusing support for basic research and other long-term R&D where the benefits do not readily accrue to individual companies but assist industry as a whole in the future commercialization of new technologies. However, the Administration has been less successful in efforts to increasingly militarize DOE's budget by substantially increasing funding for nuclear and other military programs. The House Appropriations Committee recently completed work on the FY87 DOE budget and expressed its concern over attempts to shift greater amounts of nuclear research funding from civilian to military uses, and asked that DOE submit a report identifying the allocation of research funds and manpower between space and defense programs and other activities. Congress can be expected to redirect some R&D funding away from nuclear and defense-related programs to more conventional energy sources such as coal.

(billions of dollars)

	FY84	FY85	FY86 (est.)
Budget Authority	4.93	5.30	5.10

Federal Energy Leasing Programs

Agency:	**DOI**
Industry:	**Oil, Gas, Coal**
Type of Subsidy:	**Below Cost Service**
Purpose:	**SDK**
FY85 Funding:	**NA**

The U.S. Department of Interior is responsible for leasing federal oil, gas and coal properties to the private sector for exploration and development. The Bureau of Land Management administers the coal leasing program and the onshore oil and gas leasing program, more commonly known as the "simo" program. The Mineral Management Service administers offshore oil leasing. Over the years, it has been alleged that all three of these leasing programs have sold resources to the private sector for less-than-fair-market value for various reasons.

The most glaring example is the onshore oil and gas leasing program. Oil and gas properties that are in "known geological structures," or in other words have high resource potential, are offered for sale through competitive bidding procedures. However, property that is not in a known geological structure is leased via a lottery for $1 per acre. The lottery system has been severely criticized as a give-away of valuable resources. Since the resource potential of the land is unknown, it is difficult to estimate the magnitude of the government loss, but some estimates suggest that using competitive bidding for all onshore properties could increase federal revenues by hundreds of millions of dollars a year. Although Congress has been debating reform of this system for years, staunch support by independent oil producers has prevented any meaningful change. Independents are awarded between 70 and 80 percent of the $1 per acre leases, and often are able to resell the valuable properties to major oil companies at substantial profits. The supporters of the status quo defend the program on the grounds that it encourages exploration for resources in areas of uncertain potential.

Although both the offshore leasing system and the coal leasing program require competitive bidding, the government is in a unique position to define price because it has total control over the available supply with respect to offshore properties, and a major share with respect to western coal. With the Reagan Administration's emphasis on making more federal resources available for development, critics have alleged that the leasing programs have flooded the market and diluted competition for leases, resulting in properties being sold at fire-sale prices and decreased revenue to the government. For example, a 1985 GAO report found that the Reagan Administration's offshore leasing policies, which made more tracts available for lease, were responsible for an average reduction in bids of $541 per acre. Similar allegations were made about the coal leasing program sales made in 1982, and the program has been suspended since then.

In all of these situations, allegations of subsidy are difficult to prove because the true "fair market value" of the properties is hard to define. The industry responds that declining bids are due to falling oil prices, not leasing procedures which result in less-than-fair-market prices.

Alcohol Fuels Programs

Agency:	**DOE**
Industry:	**Energy**
Type of Subsidy:	**Loan Guarantees, Cooperative Agreements**
Purpose:	**SDK**
FY85 Funding:	**NA**

The Office of Alcohol Fuels was created in 1980 to encourage the production of liquid fuels from biomass. In 1980 the office entered into three cooperative agreements, providing up to 50 percent of project funding not to exceed $25 million per project. The projects include South Point Ethanol in Ohio for $24.5 million; Kentucky Agricultural Energy Corp. in Franklin, Ky., for $9.5 million; and Columbia Energy Resources in Tacoma, Washington. (This project has been scapped, DOE had disbursed approximately $1.6 million.) Sponsors of the two projects in operation have contributed significantly more than DOE.

The Office of Alcohol Fuels also has guaranteed loans for several facilities. The loan guarantees are for 90 percent of the amount of the bank loan. DOE does not spend any money unless project sponsors default on their loans. Loan guarantees were made for three projects over the past several years totaling approximately $300 million.

The Office of Alcohol Fuels does not have any authority for further outlays.

U.S. Synthetic Fuels Corporation

Agency:	**Treasury (formerly Independent)**
Industry:	**Energy**
Type of Subsidy:	**Loan Guarantees, Price Guarantees**
Purpose:	**SDK**
FY85 Funding:	**$40.8 million**

The Energy Security Act of 1980 established the U.S. Synthetic Fuels Corporation (SFC) to provide incentives for private investment in the development of a domestic synthetic fuel industry. The corporation was authorized to provide financial assistance to qualified projects that would produce synthetic liquids, solids, or gases from coal, including lignite, and peat, oil shale, tar sands, and certain heavy oils. It was intended that loan guarantees, price guarantees, purchase agreements, and direct loans would offset the substantial financial risks associated with constructing and operating first-of-a-kind commercial plants. Under certain limited circumstances the SFC also had the authority to participate as a joint venture sponsor in projects and undertake up to three corporation-owned synfuel production facilities.

The SFC has contingent liabilities totaling $1.66 billion. Because of the lengthy construction period for synthetic fuel plants, most price guarantee payment outlays are not expected to occur until the 1990s and will be spread over several years. The SFC expects to recoup many of these outlays in subsequent years because of profit sharing and revenue sharing provisions in the assistance contracts. However, because the profitability of these projects largely depends on the price of conventional fuels, it is impossible to tell at this time whether the projects will be viable, much less profitable.

Prompted by falling energy prices and poor management of the corporation, Congress substantially reduced funding for the corporation in 1985, voting in December 1985 to terminate the corporation and rescind all remaining unobligated and uncommitted funds. The financial assistance contracts signed by the SFC have been transferred to the Department of the Treasury for ongoing monitoring.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Outlays	14.9	16.9	40.8	40.9

Natural Gas Price Controls

Agency: DOE
Industry: Petrochemicals
Type of Subsidy: Price Regulation
Purpose: OCR
FY85 Funding: NA

The price of natural gas from wells drilled prior to 1978 ("old" gas) is regulated by the Federal Energy Regulatory Commission under the authority of the Natural Gas Policy Act of 1978. The Natural Gas Policy Act deregulated the price of post-1978 gas (or "new" gas) effective January 1, 1985. However, old gas will remain permanently under control unless the Natural Gas Policy Act is amended by an act of Congress.

The regulated price of old gas is determined based on the year that the well was brought into production and is indexed for inflation. Current old gas prices are on average about $1.40 per thousand cubic feet. It has been estimated the price-regulated old gas constitutes about two-fifths of the nation's gas supply.

The major political rationale for keeping old gas prices under control is to help reduce the price paid for natural gas by residential consumers. However, a price-controlled gas supply also confers a benefit on gas-consuming industries, particularly those which consume gas as a chemical feedstock as well as a fuel.

Although deregulation of old gas prices has been a legislative priority of oil and gas producers for years, Congress is very reluctant to act because of opposition to price decontrol by consumer groups and natural gas pipelines and distribution companies. The legislative outlook for decontrol is poor. Therefore, the Reagan Administration has proposed a regulatory scheme to raise old gas prices to their highest allowable level under the law, which given the current low prices of natural gas, would bring old gas prices to market clearing levels and would amount to "de facto decontrol." However, the outlook for this plan is unclear because of a pending court challenge.

Even if old gas prices remain under permanent price controls, their impact on the market will diminish over time as older gas wells are depleted and the percentage of the nation's gas supply coming from old gas wells drops off.

The U.S. Geological Survey

Agency: DOI
Industry: Oil and Gas
Type of Subsidy: Free or Below Cost Services
Purpose: SDR
FY85 Funding: $445.4 million

The U.S. Geological Survey is an agency within the Department of Interior which provides basic scientific data and information concerning water, land, and mineral resources. The USGS's activities include (1) producing and making available maps of geological data, (2) mapping and surveying the nation's offshore and onshore mineral resources in order to help the nation manage its resources, and (3) conducting a national program of water resource investigations. The USGS works with private industry groups to establish data on the nation's oil and gas reserves. In addition to funds appropriated by Congress, the USGS receives revenue in the form of reimbursements from states and localities for their share of cooperative resource investigations.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	371.7	377.6	416.3	429.3
Outlays	422.3	410.0	445.4	440.9

Tax Credit for Fuels from Nonconventional Sources

Agency: IRS
Industry: Energy
Type of Subsidy: Tax Expenditure
Purpose: IS
FY Funding: $10 million

A credit against a producer's income tax liability is allowed for the domestic production and sale of certain fuels from nonconventional sources. The fuels upon which the credit is allowed are (1) oil produced from shale or tar sands; (2) gas produced from geopressured brine, Devonian Shale, coal seams, or a tight formation; (3) gas produced from biomass; (4) liquid, gaseous or solid synthetic fuels; (5) qualifying processed wood fuels; and (6) steam from solid agricultural by-products. The credit applies to eligible fuels sold after December 31, 1979 and before January 1, 2001.

To be eligible for the credit these fuels must have been produced from (1) facilities placed in service after December 31, 1979, and before January 1, 1990 or (2) wells drilled after December 31, 1979, and before January 1, 1990 on properties that first began production after December 31, 1979.

The tax credit is equal to $3 for each 5.8 million British Thermal Units (BTUs) of energy. For comparison, 1 barrel of crude oil contains approximately 5.8 million BTUs. The $3 credit is indexed for inflation using increases in the GNP deflator. The only exception to the inflation indexing is for gas produced from a tight formation where no indexing is allowed. The credit is phased out as the annual average well head price for a barrel of uncontrolled domestic oil rises from $23.50 to $29.00 a barrel, indexed for inflation since 1980. In effect, the credit was intended as a cushion in the event of falling oil prices. When Congress enacted the credit, it expected the rise in oil prices to make the credit irrelevant, except as a measure of protection for synthetic fuel

producers if there were an unexpected drop in prices. The dramatic price drop this year is too recent to determine if the credit is being used to any extent.

The House tax reform bill would terminate this credit.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Tax Expenditure	10.0	10.0	10.0	10.0
Direct Expenditure Equivalent	15.0	35.0	15.0	15.0

Energy Tax Credits

Agency: Mostly IRS (except Geothermal and Ocean Thermal - IRS/Interior Dept./Energy Dept.)
Industry: Energy
Type of Subsidy: Tax Expenditure
Purpose: SDK
FY85 Funding: $270 million

As a means to encourage businesses to invest in alternative sources of energy and in energy conservation, a series of tax credits was established as provisions to the Energy Tax Act and the Windfall Profit Tax Act of 1979. These credits, most of which expired at the end of 1985, were in addition to the investment tax credit. The House and Senate tax reform bills would continue some of these credits for a limited period. Representatives of the alternative energy industry claimed that the extensions are necessary to prop up the industry until it is economically viable.

Solar or Wind Energy Tax Credit: Previously, a credit of 15 percent was allowed for purchases of any equipment that uses solar or wind energy to generate electricity, to heat or cool a building or to provide hot water for use within the building or to provide solar process heat. Solar equipment includes collectors that absorb sunlight and create hot liquid or air, storage tanks to store hot liquids, rockbeds to store heat, thermostats to activate pumps, fans to circulate hot air, and heat exchangers. Any application of passive solar energy is not eligible for the business solar credit. The wind energy credit applies to windmills.

Geothermal and Ocean Thermal Tax Credit: A 15 percent credit was allowed for equipment used to produce, distribute, or use energy derived from a geothermal deposit, with the exception of electricity generated by geothermal power where only up to the electrical generating stage was eligible. The ocean thermal credit applied only to two locations, designated by the Secretary of the Interior after consultation with the Secretary of Energy, for purposes of heat exchange systems that produces energy usable for generating electricity.

Biomass Property: A 10 percent tax credit was available for biomass property, defined as a boiler or burner that uses an alternative substance and as equipment for converting an alternative substance into a qualified fuel. An alternative substance is any property other than oil or natural gas, or any product of same, except an alternative substance does not include any inorganic substances and does not include coal or coal products.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Tax Expenditure	300.0	230.0	270.0	155.0
Direct Expenditure Equivalent	405.0	205.0	385.0	190.0

Alcohol Fuels Tax Credits and Related Exemptions to Excise Tax

Agency: IRS
Industry: Agriculture, Petrochemicals
Type of Subsidy: Tax Expenditure
Purpose: IS
FY85 Funding: $365 million

Federal tax laws provide incentives for the production of motor fuels which consist at least partially of alcohol. These incentives were designed to encourage an alcohol fuels industry, which would reduce U.S. dependence on fossil fuels. Grain farmers also have been very supportive of these incentives. The tax reform bill probably will reduce but not eliminate these incentives.

Alcohol Fuels Credit: A 60 cents-per-gallon income tax credit is allowed for the production of alcohol used in a mixture of alcohol and gasoline, diesel fuel, or any special motor fuel if the mixture is sold by the producer for use as a fuel or issued as a fuel by the producer. In addition the credit is allowable for alcohol if the alcohol is sold at retail by the taxpayer and placed in the fuel tank of the purchaser's vehicle.

The amount of the allowable credit is reduced in proportion to any benefit received with respect to the alcohol under excise tax exemptions for alcohol fuels mixtures or alcohol fuels.

This credit is scheduled to expire on January 1, 1993.

Excise Tax Exemptions:

(1) Alcohol Fuel Mixtures. A 6-cent-per-gallon exemption from the federal 9 cents-per-gallon excise tax for gasoline, diesel fuel, and special motor fuels is allowed if any of these fuels are mixed with at least 10 percent alcohol. To be eligible for the exemption, the alcohol must derive from a source other than petroleum, natural gas or coal.

This excise exemption will expire on January 1, 1993.

(2) Alcohol fuels. An excise tax exemption equaling 9 cents-per-gallon is allowed for certain neat methanol and ethanol fuels derived from a source other than petroleum or natural gas. Neat alcohol fuels are fuels comprised of at least 85 percent methanol, ethanol, or other alcohol. Should these neat alcohol fuels be derived from natural gas, a 4½ cents-per-gallon exemption is allowed.

This excise tax exemption will expire on January 1, 1993.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Tax Expenditure	160.0	215.0	365.0	445.0

Intangible Drilling and Development Costs for Oil and Gas

Agency: IRS
Industry: Oil and Gas
Type of Subsidy: Tax Expenditure
Purpose: SDK
FY85 Funding: $585 million

Intangible drilling and development costs (IDCs) represent one of two major types of costs that an operator of an oil or gas property may incur, the other cost being depreciable costs. IDCs are defined as expenditures that are incident to and necessary for the drilling and preparation of wells for production, that are not for the purchase of the property or included as part of the price of the property. IDCs include labor, fuel, repairs, hauling and supplies that are used to clear the well site, construct a road and other physical structures and perform any geological survey necessary.

Under present law, IDCs may be deducted in the year a cost is incurred, or capitalized and amortized over several years at the election of the operator of an oil or gas property. The availability of the current deduction is important to the oil and gas industry. Without it, industry representatives claim that investment money for new wells would dry up, even with a return to pre-1986 prices. Only persons holding an operating interest in a property may use this approach. In general the term operating interest refers to persons who must bear the costs of developing and operating a property but these costs may not include royalties.

Since 1983, integrated producers may deduct only 80 percent of their IDCs. The remaining 20 percent must be amortized over a 36-month period beginning with the month the costs are incurred. In addition, the use of IDCs by individuals and corporations is subject to a minimum tax intended to prevent taxpayers from eliminating or nearly eliminating tax liabilities through the extensive use of tax incentives such as the IDC deduction.

Under current law, no differentiation between the treatment of U.S.-based or foreign-based IDCs is made. The equal treatment of U.S.- and foreign-based IDCs may be changed as a result of the current tax reform effort. A provision contained in both the House and Senate bills would disallow the immediate expensing of foreign based IDCs and require them to be recovered by using a 10-year straight line amortization schedule. This provision does allow a producer to elect to include foreign based IDCs as a part of the basis for cost depletion (see below).

Also the House tax reform bill would restrict the use of IDCs.

(billions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Tax Expenditure	3.16	1.42	0.585	0.555
Direct Expenditure Equivalent	2.33	1.59	0.490	0.620

Oil and Gas Depletion Allowance

Agency: IRS
Industry: Oil and Gas
Type of Subsidy: Tax Expenditure
Purpose: SDK
FY85 Funding: $1.35 billion

Depletion is in many respects the oil and gas drillers' version of depreciation. Like depreciation, the depletion deduction is a recognition that a taxpayer is expending an asset in order to produce income. The asset that an oil or gas driller is expending is the oil or gas reserve itself. Through the depletion deduction certain costs that are incurred even prior to drilling are recoverable. These recoverable costs include acquiring the lease or other interest in an oil or gas property and pre-drilling geological and geophysical costs. The depletion deduction is available to any taxpayer that has an economic interest in an oil or gas production property, including those taxpayers who have royalty interests.

Under current law, two methods of depletion deductions are available to taxpayers, cost depletion or percentage depletion. Under cost depletion, a taxpayer deducts the amount of depletable costs that is equal to the ratio of hydrocarbons produced and sold from a certain property during a taxable year to the number of hydrocarbon units that were available to the producer at the beginning of the year. The law states that the amount of costs that a taxpayer recovers may not exceed the taxpayer's basis in the property under cost depletion.

Under percentage depletion, a taxpayer is allowed to deduct annually 15 percent of his gross income from an oil or gas producing property. The amount that a taxpayer is allowed to deduct through percentage depletion may not exceed 50 percent of net income from the property or 65 percent of overall taxable income for a given year. It is possible under percentage depletion for a taxpayer to recover costs that exceed a taxpayer's basis in a property because percentage depletion is calculated without regard to a taxpayer's basis in a property.

The combination of the current deduction for intangible drilling costs and the percentage depletion method provides oil and gas producers, and investors in oil and gas productions, substantial tax incentives. However, a provision contained in the Tax Reduction Act of 1975, limits percentage depletion to independent producers (excluding major integrated producers) or royalty owners for up to 1,000 barrels of average daily production of domestic crude oil or an equivalent amount of domestic natural gas. For those who produce both oil and natural gas, the percentage depletion limitation is imposed on a combined basis.

The advantage of the percentage depletion method, like current deductions for IDC is reduced somewhat by the applicability of the minimum tax.

(billions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Tax Expenditure	1.28	1.17	1.35	1.27
Direct Expenditure Equivalent	1.72	1.64	2.00	1.88

Deduction for Tertiary Injectants

Agency: IRS
Industry: Oil and Gas
Type of Subsidy: Tax Expenditure
Purpose: OCS
FY85 Funding NA

Current law allows that expenditures for tertiary injectants used in tertiary recovery methods for oil and gas production may be expensed in the year of injection. Tertiary recovery methods are various chemical, fluid or gaseous recovery techniques specified in the Internal Revenue Code and regulations. The allowance for producers to expense tertiary expenditures does not extend to crude oil or natural gas injectants that are recoverable from the reservoir or to costs that may be elected to be treated as Intangible Drilling Costs.

MINING

Introduction

The size and importance of the mining industry in the United States has diminished significantly over the past decade due to declining reserves, high labor costs, environmental restrictions, and low-cost foreign mineral supplies. The mining industry, however, is still vital to the economy of certain regions, particularly the West and Southwest. Moreover, the argument for subsidization of the mining industry is made on national security as well as economic grounds. Mining industry advocates maintain that a healthy domestic mining industry is essential to the nation's defense to prevent the cut-off of strategically important metals and minerals during wartime. Mining, like other resource extractive industries, receives most of its federal assistance through the tax code rather than through direct spending programs.

Capital Gains Treatment of Royalty Income from Coal and Domestic Iron Ore

Agency: IRS
Industry: Coal and Iron Ore
Type of Subsidy Tax Expenditure
Purpose: SDK
FY85 Funding: $110 million

Royalties on the dispositions of coal and domestic iron ore qualify for capital gains treatment, provided the coal or iron ore interests are held for more than six months before mining begins. The capital gains treatment is not allowed to income realized by an owner as a co-adventurer, partner, or principal in the mining of coal or iron ore; or to certain related party transactions. The law stipulates that if a party elects to use capital gains treatment on certain coal or iron ore, then he is not permitted to use percentage depletion on the same coal or iron ore (see below).

The lower tax advantage of capital gains treatment (a 28 percent rate instead of 46 percent for corporations) will be discontinued under pending tax reform legislation.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Tax Expenditure	195.0	115.0	110.0	110.0
Direct Expenditure Equivalent	310.0	190.0	160.0	165.0

Hard Minerals - Depletion

Agency: IRS
Industry: Minerals
Type of Subsidy: Tax Expenditure
Purpose: SDK
FY85 Funding: $330 million

Producers of hard minerals may recover the costs associated with acquisition and mining of deposits under one of two methods: cost depletion or percentage depletion.

The law requires a taxpayer to elect to employ the percentage depletion method unless it can be shown that cost depletion will yield a large deduction.

Cost depletion is the means by which a taxpayer deducts the proportion of the adjusted basis of the property that is equal to the ratio of units sold from the property during the year to the number of units at the beginning of the year. By using the cost depletion method to compute recoverable costs, a taxpayer cannot recover an amount above his basis in a property for any taxable year.

The percentage depletion method allows a taxpayer to deduct in each taxable year a statutory percentage of the taxpayer's gross income from a property. The deduction can range from 5 percent to 22 percent of gross income. Percentage depletion is generally allowed for all minerals except soil, dirt, turf, water, moss or minerals from sea water. Under percentage depletion, the amount deducted for any mineral may not exceed 50 percent of the net income from the property for the year. Percentage depletion is computed without regards to a taxpayer's basis in a property so it is possible that percentage depletion deductions can exceed the amount expended by the taxpayer to acquire the property.

In the case of a corporation, the amount of percentage depletion for coal that includes lignite and iron ore is reduced by 15 percent to the extent that it is in excess of the adjusted basis of the property.

The advantage of the percentage depletion method is reduced by the applicability of a minimum tax on this and other items of preferential treatment under the tax code.

The pending tax reform bill might repeal the percentage depletion method.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Tax Expenditure	290.0	330.0	330.0	345.0
Direct Expenditure Equivalent	470.0	485.0	465.0	485.0

Expensing of Mining Exploration and Development Costs

Agency: IRS
Industry: Mining
Type of Subsidy: Tax Expenditure
Purpose: SDK
FY85 Funding: $55 million

Under current law, mining exploration and development costs associated with hard mineral deposits may be expensed by the taxpayer.

Exploration costs for mining include locating and ascertaining the existence of a hard mineral deposit and determining the size or quality of a deposit. Exploration costs are paid by the taxpayer prior to the commencement of the actual mining. Once the mine reaches the productive stage, the adjusted exploration costs are recovered either through cost depletion or as a depletable expense. Adjusted exploration costs are expensed exploration costs attributable to the property, reduced by the excess of percentage over cost depletion.

The law treats foreign exploration costs somewhat differently than domestic costs. Foreign exploration costs may not be expensed to the extent that a taxpayer's total costs of foreign and domestic exploration exceeds $400,000 for the taxable year.

Development costs are those costs that are incurred for the development of a property once the existence of commercially marketable ores has been established.

For corporations involved in mining, only 80 percent of their exploration and development costs for hard minerals may be expensed. The remaining 20 percent must be recovered by using the 5-year accelerated cost recovery system depreciation schedule. The 5-year recovery period begins in the year in which the exploration and development costs are paid or incurred. For domestic hard mineral deposits, such costs also qualify for the investment tax credit. (Note: the investment tax credit will likely be eliminated in any tax reform bill that becomes law.)

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Tax Expenditure	55.0	Less than 5.00	55.0	55.0
Direct Expenditure Equivalent	55.0	"	80.0	85.0

Reclamation Costs for Mining and Solid Waste

Agency: IRS
Industry: Mining and Solid Waste
Type of Subsidy: Tax Expenditure
Purpose: SDK
FY85 Funding: $40 million

Taxpayers have the option of electing a special reserve method for deducting the costs for mine and solid waste reclamation and closing prior to economic performance. Taxpayers who do not elect to utilize the special reserve method cannot deduct set asides for future obligations for mine reclamations and closings. This special reserve method essentially is an anomaly in the tax laws. Generally, companies may not deduct contributions to a reserve for any purpose. This exception is intended primarily to offset costs of complying with environmental policies. Within that context, though, the special reserve helps the mining industry.

The amount that a taxpayer may elect to deduct during a taxable year generally is the estimated future reclamation or closing costs attributable to production or mining activity. The estimate must be made on (1) the mining activity or (2) the prevailing reclamation or closing costs for the current year.

To obtain a deduction, a taxpayer does not need to place any capital in an account but the amounts deducted are added to a bookkeeping reserve that is used for tax purposes. Also, interest on the additions to the reserve are deemed added each year at a set rate.

Where reclamation or closing occurs, the balance in the account is compared to the reclamation or closing costs and if the total amount in the account that includes interest exceeds the costs to the taxpayer, no further deductions are allowed and the excess is

considered to be income. Deductions are only allowed if the amount expended on reclamation or closing costs exceed the amount in the reserve and only on the amount in excess.

Expenses that may be counted in computing the special reserve are generally any expenses pursuant to a reclamation plan, a reclamation or a closing activity in connection with solid waste disposed sites. Expenses that are attributable to the clean up of hazardous waste sites included in the Superfund Law are not eligible for this election.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Tax Expenditure	NA	NA	40.0	50.0
Direct Expenditure Equivalent	NA	NA	40.0	55.0

The Bureau of Mines

Agency: DOI
Industry: Mining
Type of Subsidy: Free of Below Cost Services
Purpose: SDR
FY85 Funding: $149.1 million

The Bureau of Mines is a research and fact-finding agency within the Department of Interior that conducts research pertaining to the mining industry. Its research activities are related to (1) health and safety issues related to mining and technologies for reducing mine accidents, (2) mining technologies to improve the recovery of domestic minerals and reduce environmental impacts, and (3) basic research on the scientific and research principles of mineral processing. The Bureau of Mines also is responsible for accumulating a data base on mineral commodities that includes information on worldwide supply, demand, consumption, and reserves.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	144.5	136.8	135.9	127.7
Outlays	147.6	160.2	149.1	145.8

TIMBER

Introduction

The U.S. timber industry benefits from special tax privileges, direct spending programs, and indirect assistance in the form of below-market prices for timber harvested from federal land. Because the timber industry is concentrated in the Pacific Northwest, and to a lesser extent in the Southeast, these subsidy programs have significant regional economic benefits. For the most part, these regions have been served well by their elected representatives, such as Sen. Bob Packwood (R-Ore.), chairman of the Senate Finance Committee, and Sen. Mark Hatfield (R-Ore.), chairman of the Senate Appropriations Committee. The leadership positions held by these senators representing timber states has worked to the benefit of the industry. However, the timber industry's tax breaks are not immune to the possible effects of tax reform legislation, and they are likely to be modified in a manner which will reduce their benefit to the industry.

Forestry Incentive Program

Agency: USDA
Industry: Forest Products
Type of Subsidy: Grants
Purpose: SDK
FY85 Funding: $12.5 million

Under the authority of the Cooperative Forestry Assistance Act of 1978, the Agricultural Stabilization and Conservation Service provides financial assistance for bringing private forest land under intensive management in order to increase timber production and enhance other forest resources. Owners of private, nonindustrial forestlands of 1,000 acres or less are eligible (1) if they are located in a designated county, (2) if they have developed the required forest management plan with cooperation from the state forester and (3) unless the owner is a publicly traded corporation.

The program will pay up to 65 percent of the total costs for tree planting, stand improvement and site preparation for natural regeneration.

Direct payments under the program have totaled roughly $12 to $13 million per year over the past several years. In FY84, just under 5,000 owners were assisted at an average payment rate of about $50 per acre.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	12.5	12.5	12.5	12.4
Outlays	10.5	10.8	12.4	13.6

Below-Cost Sales of Federal Timber

Agency:	**USDA**
Industry:	**Forest Products**
Type of Subsidy:	**Below-Cost Service**
Purpose:	**SDK**
FY85 Funding:	**NA**

Recently, a number of allegations have been made against the U.S. Forest Service's timber sales procedures charging that timber is sold to private companies at a price that is far less than the government's costs in administering the sale, which include the cost of road construction, reforestation, preparing and administering the sale, etc. A 1984 GAO report analyzing timber sales in four western regions in 1981 and 1982 found that 34 percent of the sales were below cost, with the Rocky Mountain region having the worst record--96 percent of its sales were below cost. The Wilderness Society reports that from 1975 to 1984, National Forest timber-related expenditures exceeded their revenue from sales by $2.1 billion, adjusted for inflation, with most of these below-cost sales occurring in Alaska and the Rocky Mountain region. In Alaska, the situation is exacerbated by a provision in the 1980 Alaska Lands Act which requires the sale of a minimum of 450 million board feet of timber annually in Alaska's southeastern panhandle, despite the soft demand for these sales. Only 43.7 percent of the offering have been sold over the past five years, and on average $.83 was lost on each dollar of sales revenue. The program amounts of a $40 million a year subsidy, according to an analysis by Sen. William Proxmire's (D-Wis.) office.

The U.S. Forest Service and the U.S. forest products industry disputes the claim of subsidy, arguing that this type of analysis does not take into account the total economic benefits associated with the program, but only the short-term cash flow impacts. Increased congressional scrutiny on the costs and benefits of U.S. Forest Service sales processes is likely.

Capital Gains Treatment for Timber

Agency:	**IRS**
Industry:	**Timber**
Type of Subsidy:	**Tax Expenditure**
Purpose:	**SDK**
FY85 Funding:	**$350 million**

Royalty income received by a taxpayer from an interest in timber property qualifies for capital gains treatment, i.e. a lower tax rate, if the timber has been held for at least 6 months before being cut. In addition, the owner(s) of timber or the right to cut timber may elect to treat the cutting of the timber as a sale or exchange qualifying for capital gains treatment even if the timber is sold or used in the taxpayer's business. Again, the timber must be held for more than six months prior to cutting to qualify for this treatment. Normally, the sale of a product is not eligible for capital gains treatment if the sale is part of the taxpayer's business.

Pending tax reform legislation will eliminate or reduce the advantage of capital gains treatment. Also, tax reform might limit any residual capital gains advantage to individuals for gains on timber that is cut on nonfederal lands. According to the House Ways and Means Committee which proposed this limitation, the continuation of capital gains treatment for timber on nonfederal lands meets the test of "a particular need for incentive treatment."

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Tax Expenditure	270.0	295.0	350.0	410.0
Direct Expenditure Equivalent	735.0	485.0	475.0	670.0

Capital Amortization and Tax Credit for Reforestation Expenses

Agency: IRS
Industry: Timber
Type of Subsidy: Tax Expenditure
Purpose: OCR
FY85 Funding: $20 million

Since 1979, a taxpayer is allowed to elect to amortize over a seven-year period up to $10,000 per year for expenses incurred due to reforestation. The same expenses are eligible for a 10 percent credit against income tax liability.

In addition, timber producers may currently deduct costs for management, carrying charges, and protection of trees. The management and protection costs include labor and materials for fire, disease, removal of unwanted trees, and insect control. Eligible carrying charges include interest and administrative costs.

The pending tax reform legislation might eliminate the amortization and current deduction provisions, but not the credit. Without the special amortization provision, reforestation expenses would be capitalized and recoverable when the timber is harvested (through cost depletion) or sold (by reducing the amount of gain subject to tax). Costs that now are eligible for current deduction also would be subject to the new capitalization and recovery rule, thus denying timber producers the opportunity to accelerate deduction.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Tax Expenditure	15.0	20.0	20.0	25.0
Direct Expenditure Equivalent	30.0	40.0	40.0	45.0

BANKING AND FINANCIAL INSTITUTIONS

Introduction

Although state governments play the primary role in regulating the banking and financial services industry, the federal government does have a significant impact on the industry through the federal tax code and the activities of the Federal Reserve System. Banks are allowed a special tax deduction called the deduction for bad debt reserves, and other financial institutions, such as savings and loans and credit unions, have similar tax provisions which apply to them. The Federal Reserve System provides a number of services to banks. Through its discount window operations it provides short-term and expanded credit to its member institutions at interests that are generally below market rates. The Federal Reserve also provides currency distribution services at only a nominal charge. And until recently, the Federal Reserve System performed check clearing activities for banks on a subsidized basis; however, it now charges fees which recover its costs.

Federal Reserve Discount Window

Agency:	**Independent**
Industry:	**Banking**
Type of Subsidy:	**Loans**
Purpose:	**OCR**
FY85 Funding:	**NA**

All depository institutions in the United States must meet reserve requirements set by the Federal Reserve Board (FED). They are required to hold reserves at the FED in the form of vault cash or deposits in a specified ratio to the volume of their time deposits and transactions accounts. The Federal Reserve system lends reserve funds through its discount window operations to members and certain nonmember institutions that require credit to relieve liquidity strains.

Discount window credit provides Federal Reserve lending to eligible depository institutions under two basic programs. Adjustment credit provides short-term borrowing—often just overnight—to cover changes in reserve requirements resulting from sudden and unforeseen fluctuations in deposit outflows or loan demands, or to counter temporary difficulties in obtaining funds. Extended credit is available to assist small institutions with seasonal credit needs that lack access to national money markets, or to assist larger institutions experiencing liquidity problems due to natural disasters, special difficulties related to investments in long-term assets, or other specified problems. However, extended credit is available at the lower-than-market discount rate for only a 60-day period. After 60 days the interest rate is increased to take into account market sources of funds.

The rate of interest charged on this lending—known as the "discount rate"—is established by the Federal Reserve Board. The discount rate is almost always lower than the market rate of interest, although the degree of difference varies considerably over time.

Deductions for Bad Debt Reserves for Commercial Financial Institutions

Agency: IRS
Industry: Commercial Banks
Type of Subsidy: Tax Deduction
Purpose: OCR
FY85 Funding: none

Commercial banks are allowed to deduct for federal income tax purposes loan losses prior to the time in which the loans became wholly or partially worthless using either the reserve method or specific charge-off method. Under the specific charge-off method, a deduction is allowed for bad debts as the individual debt owed the bank becomes wholly or partially worthless.

Under the reserve method, a reserve account is established against the possibility that some of a bank's debts may become worthless. The deduction allowed for bad debts for a given year is the amount necessary to bring the reserve for bad debts at the beginning of the year, adjusted for actual bad debt experience and resources during the year, to the allowed ending balance computed under approved methods. The ending balance may be computed using either the bank experience method or percentage of eligibly loans method.

In general, the basic experience method allows the ending balance of the reserve to be equal to the percentage of total loans outstanding that are expected to become uncollectable within the next year. Under the percentage of eligible loan method, the maximum addition to the reserve for bad debts at the close of the taxable year is an amount necessary to increase the reserve to a specified percentage of outstanding eligible loans at that time plus an amount determined under the experience method for loans other than eligible loans. From year to year a bank may switch between the two methods for determining their bad debt deduction. While a bank does not have to utilize the method that yields the highest deduction, there are regulations concerning the minimum deduction allowable.

If the deduction computed under the percentage of eligibility method is greater than the deduction allowed under the experience method, then the deduction is reduced by 20 percent of the amount above the experience method. In addition, 59-5/6 percent of the excess deduction beyond the 20 percent reduction is treated as a minimum tax preference.

It is important to note that the percentage of eligible loan method is scheduled to expire at the end of 1987. Moreover, pending tax reform legislation could eliminate the reserve method this year, thus terminating the advantage of taking current deductions for future losses. The repeal could apply only for large banks.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Tax Expenditure	405.0	635.0	-115.0	35.0
Direct Expenditure Equitalent	608.0	1,110	-180.0	60.0

RAILROADS

Introduction

The federal policies that relate to railroads are motivated by a desire to prevent the further decay or even total collapse of the nation's system of rail transportation--particularly the passenger rail system. The two most obvious examples are the federally owned Conrail system and Amtrak. Both are controversial because of the cost to the federal government. The Administration has been attempting to sell Conrail, but so far the action has been blocked by Congress. Similarly, efforts to eliminate the federal subsidy to Amtrak has run into serious opposition in Congress, and as a result only marginal decreases in funding are likely.

Amtrak

Agency: DOT
Industry: Railroads
Type of Subsidy: Grant
Purpose: SDK/OCR
FY85 Funding: $763.8 million

The National Railroad Passenger Corporation, or Amtrak, was created under the 1970 Rail Passenger Service Act in an effort to reverse the decline in the nation's intercity rail passenger service by relieving rail freight companies of the burden of providing passenger services. The Act accomplished this by empowering the federal government to operate such services.

Amtrak received $600 million in federal assistance in FY86. Amtrak initially received $40 million in operating grants in 1971 and $100 million in capital loans. Operating grants have risen steadily, with the government ceasing to provide capital loans after 1975. According to a 1982 Congressional Budget Office study, Amtrak's cost per real mile is three times greater than that for bus travel and 50 percent greater than for travel by air. Although each mode receives some form of federal subsidy, Amtrak's per passenger subsidy of $0.236 greatly exceeds that of $0.002 for commercial aviation and $0.001 for buses and private automobiles. Total federal subsidies to Amtrak since 1971 exceed $12 billion and are expected to exceed another $7 billion over the next decade under the current system.

Amtrak has been the target of attempted budget cuts for a number of years beginning with President Ford in 1975. Even President Carter attempted to reduce route mileage by 43 percent. However, Congress has resisted these efforts because of strong constituent response, particularly along those lines in the Northeast that traverse numerous congressional districts, and strong lobbying by Amtrak workers. Despite the compelling economics of significantly reducing Amtrak funding and solid efforts on the part of the Reagan Administration, Congress is unlikely to eliminate the Amtrak subsidy in the short run. However, some decrease in funding is likely in light of congressional concerns over the budget deficit.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	780.0	1,922	684.0	587.5
Outlays	665.4	1,119	763.8	696.4

Railroad Rehabilitation and Improvement–Guarantee of Obligations

Agency:	**DOT**
Industry:	**Railroads**
Type of Subsidy:	**Loan Guarantees**
Purpose:	**SDK**
FY85 Funding:	**$2.5 million**

Under the authority of the 1976 Railroad Revitalization and Regulatory Reform Act of 1976, the Federal Railroad Administration (FRA) is authorized to provide financial assistance in the form of loan guarantees for the purpose of acquiring, rehabilitating or improving railroad facilities or equipment and for developing new railroad facilities or equipment. State and local governments as well as private railroads are eligible, but as a general rule the FRA does not guarantee tax exempt obligations. The ultimate purpose of the program is to help rehabilitate and maintain the facilities and restore the financial integrity of the railway system of the U.S.

The program guaranteed $5.8 million in new loans in FY84 and an estimated $2.5 million in FY85. For several years the Administration has advocated elimination of this program, but Congress approved $4 million in new loan guarantees in FY86.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Loan Guarantees	15.0	5.80	2.50	4.00

Railroad Rehabilitation and Improvement – Redeemable Preference Shares or Notes

Agency:	**DOT**
Industry:	**Railroads**
Type of Subsidy:	**Direct Loans**
Purpose:	**SDIL**
FY85 Funding:	**$16.7 million**

The Railroad Revitalization and Regulatory Reform Act of 1976 provides the authority for direct loans to railroads or noncarrier entities for the purposes of purchasing or improving railroad facilities and equipment. The goal of the program is the rehabilitation, maintenance, and improvement of the nation's railway system. Funding may be provided for 100 percent of the cost of approved projects. The terms and conditions of the loans are negotiated between the Federal Railroad Administration and the loan applicant.

In FY84 $42.4 million in loans were made and an estimated $16.2 million in FY85. Congress appropriated $33.5 million for FY86. The Administration advocates elimination of the program.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Loans	30.7	42.4	16.7	33.5

GENERALLY AVAILABLE PROGRAMS

Introduction

While there are very few direct business assistance programs that are not aimed at a specific sector, there are a number of important tax subsidy programs that are generally available to corporations, such as depreciation, the investment tax credit, and research and development tax programs. The aggregate value of these tax benefits is very large, and exceeds the other subsidies discussed in this report, even agricultural price support programs. Rather than benefiting one sector or region, the benefits of these programs are spread fairly evenly across the manufacturing sector, and they constitute the most important form of federal subsidy for most businesses. However, tax reform is likely to revise or eliminate these programs, reducing business tax benefits.

National Flood Insurance Program

Agency:	**FEMA**
Industry:	**General**
Type of Subsidy:	**Government Insurance**
Purpose:	**OCR**
FY85 Funding:	**none**

The National Flood Insurance Program was created in 1968 as part of the Housing and Urban Development Act in order to give flood-prone localities affordable insurance coverage. This reflected Congress' belief that flood hazards are essentially uninsurable by the private sector because of the difficulty of spreading the risks. Congress initiated the program partially out of a belief that it would reduce federal expenditures for disaster relief and save the government money. The program's objectives include making flood insurance available to property owners on a nationwide basis, identifying all flood-prone areas, promoting construction and land-use practices that minimize flood losses. Communities become eligible for the program by adopting and enforcing flood plain management ordinances and requirements. Currently, 18,000 communities participate and 2,034,000 policies are in force, worth $135 billion. Eighty-seven percent of the policies cover dwellings.

From its inception, the program has not been self supporting, and total losses have amounted to $1.4 billion. Subsidized insurance rates are provided for buildings constructed before a detailed flood-insurance rate map for the community was made effective. About 83 percent policies in 1985 qualified for the subsidized rates.

Acknowledging these losses, the Federal Insurance Administration announced in 1981 a goal of making the program self-supporting by 1988. Since then, a number of changes have been implemented, including increasing the amounts of deductibles, revising claims procedures and limiting coverage of high-risk buildings. The average premium increased from $79 in 1980 to $221 in 1984. In 1983, a program was initiated called the "Write Your Own" program intended to involve the private insurance industry in the National Flood Insurance Program. Under the Write Your Own program insurance companies agree to sell and service flood insurance coverage under their own names in exchange for a government assurance that they will not lose money as a result of the business. Private companies now have 27 percent of all flood insurance business and the program has increased the number of policies by more than 10 percent in three years. The hope is

that this program, by increasing the number of policies and enlarging the size of the risk pool, will help reduce the program's losses.

The Federal Insurance Administration recognizes that the 1988 time frame for elimination of the federal rate subsidies is probably unrealistic. The Administration continues to hope for the phase-out of the program, but Congress is likely to extend the program for another six years. Many doubt whether the program could ever be completely "privatized" without any federal participation.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	223.0	98.5	—	79.2
Outlays	137.0	145.0	-119.0	51.2

Federal Crime Insurance Program

Agency: FEMA
Industry: General
Type of Subsidy: Government Insurance
Purpose: OCR
FY85 Funding: $14.5 million

The 1968 Urban Property Protection and Reinsurance Act authorized the federal government to provide crime insurance at affordable rates. The program was created in response to the urban riots of the 1960s. The program is designed to be an "insurer of last resort" for individuals and businesses unable to purchase private insurance against robbery and burglary. The policies are available only in designated high-risk areas in participating states. Policies cannot be cancelled because loss is incurred.

The number of policies now in place has fallen to approximately 36,000, of which approximately one-quarter insure business or commercial properties. The number of policies reached a peak in 1980, when 85,000 policies were in place. The program has had a history of unexpectedly high losses. From the program's inception through 1982, $170 million in losses were incurred. In 1983 losses were $18 million, in 1984 they were $11.5 million, and in 1985 they were $5.1 million. Tighter coverage restrictions and claims procedures have resulted in a decrease in the number of policies and helped cut back on losses.

Almost two-thirds of the policies are in New York, and the majority of the remainder are in a handful of other high-crime states. The Reagan Administration, therefore, has advocated transferring the program to the states on the grounds that the problem is local, rather than national. In 1985, Congress provided a one-time appropriation of $9.57 million to facilitate the voluntary transfer of the program to the states and so far seven states have begun the process of withdrawing from the Federal Crime Insurance Program (FCIP). But strong political pressure from big-city congressional delegations has prevented the elimination of the federal program, and Congress extended FCIP in April 1986.

The program is administered by the Federal Insurance Administration, a division of the Federal Emergency Management Agency, an independent federal agency.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Outlays	15.8	13.7	14.5	23.0

Subsidized Postage

Agency: U.S. Postal Service
Industry: Publishing, Others
Type of Subsidy: Below Cost Services
Purpose: OCR
FY85 Funding: $917.5 million (BA)

When the Postal Service was established in 1970, Congress created certain categories of mail which receive subsidized or preferred rates.

Nonprofit and charitable organizations are the beneficiaries of 70 percent of this subsidy. However, for-profit businesses benefit in two ways. First, publishers receive preferred rates for newspapers and magazines intended for local distribution, meaning within the county in which the publisher is located. This subsidy, estimated at $72 million in 1985, was intended to encourage the dissemination of local news, primarily in rural areas. But because the statutory language is broad, national publishers are able to take advantage of subsidized postage by designating one of their offices in a large county—such as Los Angeles County—as their office of publication and thereby obtain subsidized postage on mailings to their subscribers in that county.

Second, while a nonprofit organization is excluded from using subsidized rates to mail the material of other organizations, material which is combined--benefiting both a nonprofit and for-profit organization—can be mailed at subsidized rates. An example would be a mailing by a nonprofit association which offers the sale of insurance, seminars, etc., offered by a for-profit company. While the extent of this practice is unknown, the GAO estimated that it could amount to a sizable subsidy to certain for-profit companies. For example, one case GAO uncovered involving an insurance company resulted in a subsidy to that company of over $700,000 during a single year.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	771.4	717.1	917.5	782.4

The Job Training and Partnership Act

Agency: DOL
Industry: General
Type of Subsidy: Grants
Purpose: OCR
FY85 Funding: $3.41 billion

The Job Training and Partnership Act (JTPA) was created in 1982 to replace CETA, the Comprehensive Employment Training Act. Designed by the Reagan Administration, JTPA is oriented more toward private sector jobs and largely is directed by local employers and officials, whereas CETA concentrated on public sector job creation. The statute provides for (1) grants to states to operate job training programs for

disadvantaged workers; (2) nationally administered programs for special segments of the population, such as American Indians, migrant workers, and youth; and (3) aid to dislocated workers.

The grant program is managed in cooperation with the states, local governments and private industry. Federal revenue is provided to the states in the form of block grants and allocated by the governors of each state to "Service Delivery Areas" (SDAs) which are designated with the help of special state job training councils. Within each SDA, specially appointed Private Industry Councils bring representatives of the private sector into active management of the job training program. These Private Industry Councils make the decisions on how to spend the money. At least 70 percent of the grant amount must be used for training, at least 90 percent of the participants must be economically disadvantaged and at least 40 percent of the funds must be spent on youths.

The JTPA program benefits businesses by helping them pay for training costs and subsidizing wages in on-the-job training programs. Employers hiring workers eligible for government-subsidized training are reimbursed by JTPA for 50 percent of the wages the worker receives during on the job training. Critics argue that the program is a subsidy to industry because it provides public funds for routine business training expenses. Also, they claim that the definition of "economically disadvantaged" workers is too broad, and as a result, employers may well have hired and trained the same low-income workers regardless of JTPA.

(billions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	4.01	6.54	3.77	3.56
Outlays	3.85	3.19	3.41	3.48

Minority Business Development Agency

Agency: DOC
Industry: General
Type of Subsidy: Grants
Purpose: SD
FY85 Funding: $54.3 million

The Minority Business Development Agency (MBDA) was established through an executive order issued by President Richard Nixon in 1969. MBDA, located in the Department of Commerce, was established to help promote and encourage minority business ownership.

MBDA performs its function of helping minority businessmen through a network of over 90 locally established Minority Business Development Centers (MBDCs). The MBDCs, which are operated by private firms or local or state governments, offer technical and managerial assistance to minority business entrepreneurs. The MBDCs are funded by grants from the MBDA, which cannot offer grants directly to minority businesses. A small fee is charged to minority businesses for the resources provided by the centers.

The grants from MBDA are awarded to each MBDC based on the volume of business it expects to perform. The length of grants to MBDCs is three years, except for special projects which receive a one-year grant. At the end of the first year of the three-year grant, an MBDC must report to MBDA outlining its progress in helping minority

businesses. If MBDA is not satisfied that the center has made significant progress, then the final two years of the grant may be cancelled.

Any organization is eligible to apply to become an MBDC, as long long it has shown a past record of service to the local business community. Under this criteria applicants are generally corporation, nonprofit organizations, and state or local governments. Once the MBDA receives all MBDC applications, a competitive examination process begins to establish what organization, if any, is suited to become the local MBDC.

President Reagan is his FY87 budget request suggested that MBDA be merged with a portion of the Small Business Administration. However, Congress is likely to keep the MBDA independent.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	47.2	53.2	49.5	45.0
Outlays	57.0	50.8	54.3	51.7

Targeted Jobs Tax Credit

Agency: IRS
Industry: General
Type of Subsidy: Tax Expenditure
Purpose: OCR
FY85 Funding: $440 million

The Targeted Jobs Tax Credit (TJTC) was enacted in 1978 to replace an expiring credit for increased employment. The purpose behind the TJTC was to give employers an incentive to hire disadvantaged individuals from one of nine targeted groups. These groups are: (1) vocational rehabilitation referrals, (2) economically disadvantaged youths aged 18-24, (3) economically disadvantaged Vietnam-era veterans, (4) Supplemental Security Income recipients, (5) general assistance recipients, (6) economically disadvantaged cooperative education students aged 16-19, (7) economically disadvantaged former convicts, (8) recipients of the Aid for Families with Dependent Children program and registrants for the Work Incentive Program, and (9) economically disadvantaged summer youth employees aged 16-17. While intended as an incentive for hiring individuals who otherwise might not be employed, the TJTC encourages domestic companies that might locate a plant in a low wage country to instead hire American workers by subsidizing a substantial portion of wage costs in the first two years the individual is hired.

The TJTC is a credit against an employer's tax liability equal to 50 percent of the first $6,000 of qualified wages paid in the first year and of 25 percent of the first $6,000 of qualified wages paid in the second year of employment to an individual from groups 1-8. The credit does not extend beyond the second year of employment. The maximum credit that an employer may take is $3,000 per person during the first year of employment and $1,500 during the second year.

With respect to targeted group #9, disadvantaged summer youth employees, an employer may take a credit equal to 85 percent of any wages paid up to a $3,000 maximum. Therefore, the maximum credit that an employer may take for a summer youth is equal to $2,500.

The TJTC may not exceed 90 percent of any employer's tax liability after having his tax liability reduced by other tax credits. Any excess TJTCs may be carried back for three years and carried forward for 15 years.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Tax Expenditure	455.0	330.0	440.0	400.0
Direct Expenditure Equivalent	660.0	420.0	485.0	420.0

Depreciation Deductions and Investment Tax Credits

Agency: IRS
Industry: General
Type of Subsidy: Tax Expenditure
Purpose: SDK
FY85 Funding: $48 billion

Current Law

The major business tax incentives for investments are depreciation deductions and the investment tax credit. Businesses are entitled to both when acquiring new assets, albeit with a reduction in one or the other tax benefit to lessen the effect of double dipping.

Depreciation allows businesses to deduct the costs of wear and tear on, and the ultimate need for replacement of assets. Before 1981, the United States essentially allowed depreciation deductions on a historic cost basis, with some acceleration of deductions (i.e. faster than would be allowed on a pro rata basis) to offset the effects of inflation on replacement costs. There were nearly 140 categories of investment, each with a specified write-off period that reflected the useful life of the asset. In 1981, the system was changed to a simpler cost recovery system that attempted to arbitrarily provide for asset cost replacement. In the process, the write-off period for most equipment was set at five years and for most real estate 15 years (subsequently changed to 19 years).

The investment tax credit (ITC) is a non-refundable credit against business income tax liability of up to 10 percent of a taxpayer's investment costs in certain tangible assets. In general, buildings or their structural components and assets that may be written off in less than three years are denied ITC eligibility. The ITC is limited to 6 percent for assets that may be written off in three years, such as automobiles. The investment tax credit was enacted in 1962 with the intent to stimulate investment in machinery. It has been on a roller coaster ride since then, with rate changes, repeal, and reimplementation.

The combination of the current depreciation systems—which allows businesses to write off some long-lived assets in only five years—and the ITC provides effective subsidies for some assets and results in favoring some industries over others. The Treasury Department has calculated that the combination accounts for a negative effective tax rate on assets in the mining, motor vehicle, paper, petroleum refining, and transportation industries.

There are a few rules providing for more favorable depreciation or ITC treatment for assets made and/or used in the United States.

Under current law, as enacted in 1971, the President may deny the ITC to property that was completed abroad or is predominantly of foreign origin if he determines that the

country of origin maintains non-tariff trade restrictions on U.S. commerce. This provision is a dilution of an efforts by some legislators in 1971 to limit the use of the ITC for foreign-made assets. It has never been invoked, although two years ago Houdaille Industries sought its invocation against Japanese machine tool manufacturers. The Reagan Administration denied the request.

Also, the ITC is denied and depreciation deductions are reduced for property that is used primarily outside the United States, i.e., if less than 50 percent of the gross income derived from the product is subject to tax in the United States. Several exceptions to this rule are allowed. These exceptions include federally registered aircraft that operate to and from or are operated under contract with the United States, any vessel that is involved in U.S. commerce and U.S. owned satellites.

Pending tax reform legislation will eliminate the investment tax credit. A special exception will allow steel companies to cash out ITCs from prior years that were unused because of insufficient tax liability against which they could offset the ITC.

Depreciation changes in tax reform will result in longer write-off periods for some long lived assets. The reduction in depreciation deductions for assets used outside the U.S. will remain.

(billions of dollars)

Depreciation	FY83	FY84	FY85	FY86 (est.)
Tax Expenditure	10.9	14.0	20.1	23.0
Direct Expenditure Equivalent	12.9	14.6	21.4	22.4

(billions of dollars)

Investment Tax Credit	FY83	FY84	FY85	FY86 (est.)
Tax Expenditure	21.2	23.4	24.4	25.5
Direct Expenditure Equivalent	20.5	27.8	32.8	35.1

Research and Experimental Tax Credit

Agency: IRS
Industry: General
Type of Subsidy: Tax Expenditure
Purpose: SDR
FY85 Funding: $1.66 billion

Under a provision contained in the Economic Recovery Tax Act of 1981, a business may claim a nonrefundable 25 percent credit against income tax liability for the excess of (a) qualified research expenditures for the taxable year incurred in carrying on a business over (b) the average amount of the taxpayer's yearly qualified research expenditures in the three preceding taxable years. Qualified research expenditures that are eligible for the credit consist of (1) in-house expenditures for research wages and supplies; (2) rental or user fees for research use of laboratory equipment, computers or other personal property; (3) 65 percent of amounts paid by the taxpayer for contract research conducted on the taxpayer's behalf; and (4) 65 percent of a corporate taxpayer's

expenditures, including grants or contributions, for basic research performed by universities or certain scientific research organizations.

This credit is available to all research as defined under the provisions of expensing of research and experimental expenditures (R&E) (see previous section). Three exceptions to this rule are (1) expenditures for research that is conducted outside of the United States, (2) research in the social sciences or humanities or (3) research to the extent that it is funded by any grant, contract, or otherwise by another person or governmental entity.

The incremental credit may be taken for the same R&E costs that are expensed. In addition, the incremental tax credit is not subject to the general limitation on use of business credits of 85 percent of tax liability over $25,000. Together, this mix led to the creation since 1981 of R&E syndicated partnerships based on the tax shelter aspects.

The incremental tax credit expired on December 31, 1985 but both the House and Senate tax reform bills, would extend this credit, for three and four years respectively. The House bill, however, would extend the credit at a rate of 20 percent as opposed to the current 25 percent.

(billions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Tax Expenditure	0.615	1.38	1.66	1.05
Outlays	0.97	3.36	2.43	1.24

Expensing of Research and Experimentation Expenditure

Agency: IRS
Industry: General
Type of Subsidy: Tax Expenditure
Purpose: SDR
FY85 Funding: $3.73 billion

A business may elect to expense the amount of research and experimental (R&E) expenditures incurred in connection with its trade or business, notwithstanding the general business rule that expenditures to develop or create an asset that has a useful life beyond the current year must be capitalized. (The taxpayer is given the option to treat these expenditures as deferred expenses and deduct them over a period of not less than 60 months on a straight-line basis.)

The Internal Revenue Code does not define what the term research and experimental expenses mean for purposes of the expensing election. The term was defined somewhat in a regulation issued by the Treasury Department. According to the Treasury Department, the term is defined as research and development costs in the experimental or laboratory sense. Further, the regulation provides that the definition includes generally "all such costs incident to the development of an experimental or pilot model, a plant process, a product, a formula, an invention, or similar property, and the improvement of already existing property of the type mentioned."

The amount that a business may deduct for R&E expenses is not reduced by the amount of the incremental research tax credit. (See next section).

While there is no requirement that expensed amounts are attributable to domestic R&E, an allocation rule for multinational companies is important to the decision of where to conduct research. In 1977, the Treasury Department stipulated that businesses

must apportion R&E expenses attributable to foreign sales to foreign source income. U.S. businesses reacted vociferously and convinced Congress in 1981 to place a temporary hold on the Treasury position. The congressional hold still exists. The business argument against the Treasury position focused mostly on (1) the inability of U.S. companies to deduct the R&E expenses in foreign countries and (2) the adverse interplay with the foreign tax credit. However, the business position also noted that the Treasury position would lead to less domestic research activities.

(billions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Tax Expenditure	0.870	3.49	3.59	3.33
Direct Expenditure Equivalent	1.16	3.33	3.73	2.92

Possessions Tax Credit

Agency: IRS
Industry: General
Type of Subsidy: Tax Expenditure
Purpose: RCD
FY85 Funding: $1.66 billion

United States corporations meeting certain requirements are allowed to claim an income tax credit against U.S. tax for income from operations in U.S. possessions, including Puerto Rico, Guam, the Northern Mariana Islands, American Samoa and the U.S. Virgin Islands (the Virgin Islands are treated slightly differently than the remaining possessions). To qualify for the credit, at least 80 percent of a corporation's possessions subsidiary's income must derive from the possession. In addition, no more than 35 percent of the subsidiary's income may result from passive income. Moreover, the income must be received in the possession.

The possessions tax credit is not allowed with respect to income generated from intangibles transferred to the possessions unless the corporation elects one of the following two methods of allocating intangible income (1) the cost-sharing method or (2) the 50/50 profit split method. The cost-sharing payment need not be as great as an arms-length royalty.

The cost-sharing or 50/50 product split methods are not allowed for any product unless (1) at least 25 percent of the value added to the product is a result of economic activity in the possessions or (2) at least 65 percent of the direct labor costs for the product covered in the possessions.

Essentially, these special rules are intended to encourage U.S. businesses to locate plants in U.S. possessions, particularly Puerto Rico.

(billions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Tax Expenditure	1.35	1.31	1.66	1.82
Direct Expenditure Equivalent	32.0	32.8	31.8	34.7

Convention Attendance Deduction

Agency:	**IRS**
Industry:	**Hotel, Travel, Ships**
Type of Subsidy:	**Tax Expenditure**
Purpose:	**IS**
FY85 Funding:	**NA**

In General: Traveling expenses incurred by the taxpayer while "away from home" in the conduct of trade or business are generally deductible. The "away from home" restriction applies to personal living expenses such as food and lodging incurred during the trip. The deduction for food and lodging are disallowed, however, if the expenses are considered to be "lavish and extravagant."

Cruise Ship Conventions: Each taxpayer is allowed a $2,000 deduction per year for attending conventions held on cruise ships. This deduction is only allowed if the cruise ship is registered in the United States and stops at ports of call in the United States, including its possessions.

Limits on Foreign Conventions: No deduction is allowed to offset the costs of attending a convention outside the North American area unless the taxpayer can establish that it was as reasonable to hold the convention there as it would be to hold it in the North American Area. The North American Area is defined as the United States, Canada, Mexico, and Central Carribean Countries. Certain Carribean countries, including Bermuda, are treated as in the North American Area if they make certain tax information available to the United States.

Tax Reform Changes: Pending tax reform legislation would limit deductions for meal and entertainment expenses to 80 percent of the costs. Also, the legislation would impose tighter restrictions on deductions for attending conventions, including cruise ship conventions.

CULTURE AND THE ARTS

The federal government provides support to cultural and artistic activities primarily through the National Foundation for the Arts and Humanities, which is composed of the National Endowment for the Arts and the National Endowment for the Humanities, the Corporation for Public Broadcasting, and the Smithsonian Institution. Private sector support of the arts is encouraged through the charitable contribution tax deduction.

National Foundation for the Arts and Humanities

Agency:	**Independent**
Industry:	**Arts**
Type of Subsidy:	**Grants**
Purpose:	**CMD**
FY85 Funding:	**$316.8 million**

The purpose of the National Foundation for the Arts and Humanities is to encourage and support national progress in the humanities and the arts. It was created as an independent agency by an act of Congress in 1965.

The foundation consists of three subgroups, which are governed by councils composed of members appointed by the President. The councils make policies and review applications for financial support. The Federal Council on the Arts and Humanities was authorized by the Arts and Artifacts Indemnity Act of 1975 to establish a special insurance fund and enter into indemnity agreements to protect certain works of art while traveling in exhibitions in the United States or abroad.

(1) The National Endowment for the Arts: The National Endowment for the Arts provides grants to groups, individuals of exceptional talent, or state or regional organizations concerned with the arts. The endowment supports the fields of design art, dance, expansion arts, folk art, literature, media arts, museums, music, opera, theatre, and visual arts. The programs of the endowment encourage individual and institutional development of the arts, preservation of American artistic heritage, appreciation of the arts, and stimulation of nonfederal funding for artistic activities.

(2) The National Endowment for the Humanities: The National Endowment for the Humanities funds activities intended to improve the quality of education and teaching in the humanities and to strengthen the scholarly foundation for humanities studies. The endowment provides grants and matching grants to schools, educational institutions, libraries, museums, historical organizations, and other cultural and professional associations.

(3) Institute of Museum Service: The Institute of Museum Service awards grants to museums to support efforts to conserve the nation's historic, scientific, and cultural heritage. Four categories of grants are available—general operating support, conservation program grants, and two types of museum assessment grants that pay for professional evaluation of a museum's programs, operations, and collections.

(millions of dollars)*

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	289.0	322.4	324.6	311.9
Outlays	261.0	301.5	316.8	346.4

*Combines the three subgroups.

The Corporation for Public Broadcasting

Agency:	**Independent**
Industry:	**Public Broadcasting**
Type of Subsidy:	**Grants**
Purpose:	**CMD**
FY85 Funding:	**$150.5 million**

The Corporation for Public Broadcasting is a private nonprofit corporation, authorized by the Public Broadcasting Act of 1967 to develop and support noncommercial public radio and television.

Under current authorizing legislation, the Corporation for Public Broadcasting has two major activities: (1) direct payments to public television and radio stations to be used at their discretion for purposes related to program production or acquisition, and (2) supporting the production or acquisition of high-quality, innovative programs for national distribution. The corporation also assists in a national satellite interconnection service, helps pay music royalty fees, and provides limited research, technical, and planning assistance.

The Reagan Administration has advocated cutting the federal support for the Corporation for Public Broadcasting because of the need to reduce the federal deficit.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	137.0	137.5	150.5	159.5
Outlays	137.0	137.5	150.5	159.5

The Smithsonian Institution

Agency:	**Independent**
Industry:	**Arts**
Type of Subsidy:	**Free of Charge Services**
Purpose:	**CMD**
FY85 Funding:	**$226.3 million**

The Smithsonian Institution was created by an act of Congress in 1846 to carry out the will of James Smithson, who bequeathed his estate to the United States to form an institution for the purpose of increasing and diffusing knowledge.

The Smithsonian Institution acquires and preserves for study and reference purposes items of historical, cultural, or scientific importance. The collection includes over one hundred million items. The Smithsonian Institution is responsible for the operation of 12 major exhibition museums in the nation's capital, as well as the National Zoo, an observatory, and several other facilities.

The Smithsonian Institution also conducts research on the natural and physical sciences, history, culture, technology, and the arts. It offers fellowships and grants to scholars and students. The Smithsonian also has programs which provide guidance to other museums and sponsors traveling exhibitions.

(millions of dollars)

	FY83	FY84	FY85	FY86 (est.)
Budget Authority	231.3	213.5	231.1	230.0
Outlays	193.7	211.0	226.3	238.6

BIBLIOGRAPHY

Anderson, Mark A. Statement on Reauthorization of the Overseas Private Investment Corporation. Before the Subcommittee on International Economic Policy and Trade Committee on Foreign Affairs, U.S. House of Representatives. June 25, 1986.

Board of Governors of the Federal Reserve System. The Federal Reserve System: Purposes and Functions. Washington, D.C.: Board of Governors of the Federal Reserve System. December 1984.

Butler, Stuart M. Privatizing Federal Spending: A Strategy to Eliminate the Deficit. New York: Universe Books, 1985.

Copulos, Milton R. "Cutting the Deficit by Selling Federal Power Marketing Administrations. Backgrounder, No. 485. Washington, D.C.: The Heritage Foundation, February 13, 1986.

Executive Office of the President, Office of Management and Budget. Budget of the United States Government, Fiscal Year 1987. Washington, D.C.: U.S. Government Printing Office, February 1986.

Executive Office of the President, Office of Management and Budget. Major Policy Initiatives, Fiscal Year 1987. Washington, D.C.: U.S. Government Printing Office, February 1986.

Executive Office of the President, Office of Management and Budget. Special Analyses Budget of the United States Government, Fiscal Year 1987. Washington, D.C.: U.S. Government Printing Office, February 1986.

Executive Office of the President, Office of Management and Budget. The United States Budget in Brief, Fiscal Year 1987. Washington, D.C.: U.S. Government Printing Office, February 1986.

Executive Office of the President. The President's Tax Proposals to the Congress for Fairness, Growth and Simplicity. Washington, D.C.: U.S. Government Printing Office, May 1985.

Federal Emergency Management Agency. "More Flood Insurance Policies in Force Now Than Ever Before." Federal Emergency Management Agency News. Release No. 86-34. May 2, 1986.

Foreign-Trade Zones Board. 44th Annual Report to Congress. Washington, D.C.: Foreign Trade Zones Board, April 1985.

Grant, Bob. "U.S. Eyes Higher Grazing Fees Study Finds Cattlemen Paying Below Market Value." The Washington Post. April 19, 1985, p. A25.

Guskind, Robert and Jerry Hagstrom. "Lobbying the Pentagon." The National Journal. May 31, 1986, p. 1316.

Kennedy, James S. Energy and the Primary Aluminum Industry. Washington, D.C.: U.S. Government Printing Office. January 1985. (A report issued by the U.S. Department of Commerce, International Trade Administration.)

Lublin, Joann S. "Battle to Save Urban Development Grants Shows Difficulty of Killing Well-Entrenched Programs." The Wall Street Journal, March 31, 1986, p. 40.

Mosher, Lawrence. "Paying for Water." The National Journal. May 31, 1986, p. 1313.

National Archives and Records Administration. "Federal Acquisition Regulation Supplement: Industrial Modernization Incentive Program (IMIP)" Federal Register, vol. 51, no. 102, pp. 19236-19239 (May 28, 1986).

National Archives and Records Administration. The United States Government Manual. Washington, D.C.: U.S. Government Printing Office, July 1, 1986.

Proxmire, Senator William. Press Release. Released June 18, 1986.

Rasmussen, Mark and Stout, Anthony. "Below-Cost Timber Sales." American Forests, January 1985.

Reid, T. R. "Western Grazing Fees Slip Out of Budget Noose: Group of Ranchers Struggle To Keep Subsidy Alive." The Washington Post. February 2, 1986, p. A3.

Sfiligoj, Mark. "DOD Offers Incentive to Contractors." American Metal Market, vol. 94, no. 106 (June 2, 1986).

Sturwell, Alan M., ed. U.S. International Trade Laws. Washington, D.C.: Bureau of National Affairs. 1985.

U.S. Congress, Joint Committee on Taxation. Tax Reform Proposals in Connection with Committee on Finance Markup. Washington, D.C.: U.S. Government Printing Office, March 1986.

U.S. Congress, Joint Committee on Taxation. Tax Reform Proposals: Taxation of Capital Income. Washington, D.C.: U.S. Government Printing Office, August 1985.

U.S. Congressional Budget Office. Charging for Federal Services. Washington D.C.: U.S. Government Printing Office, December 1983.

U.S. Congressional Budget Office. Federal Support for High-Technology Industries. Washington, D.C.: U.S. Congressional Budget Office, June 1985.

U.S. Congressional Budget Office. Federal Support for R&D and Innovation. Washington, D.C.: U.S. Congressional Budget Office, April 1984.

U.S. Congressional Budget Office. Federal Support of Business. Washington, D.C.: U.S. Government Printing Office, January 1984.

U.S. Congressional Budget Office. Reducing the Deficit: Spending and Revenue Options. Washington, D.C.: U.S. Government Printing Office, February 1985.

U.S. Congressional Budget Office. Reducing the Deficit: Spending and Revenue Options. Washington, D.C.: U.S. Government Printing Office, March 1986.

U.S. Congressional Budget Office. U.S. Shipping and Shipbuilding Trends and Policy Choices. Washington, D.C.: U.S. Government Printing Office, August 1984.

U.S. Department of Agriculture, Economic Research Service. The Food Security Act of 1985. Agriculture Information Bulletin No. 497. Washington, D.C.: U.S. Department of Agriculture, January 1986.

U.S. Department of Energy. Budget Highlights FY1987. Springfield, Virginia: U.S. Department of Commerce, National Technical Information System, February 1986.

U.S. Department of Treasury. Tax Reform for Fairness, Simplicity, and Economic Growth — The Treasury Report to the President. November 1984.

U.S. General Accounting Office. Early Assessment of Interviews Area-Wide Program for Leasing Offshore Lands. Washington, D.C.: U.S. General Accounting Office. July 15, 1985.

U.S. General Accounting Office. Estimated Employment Effects of Federal Economic Development Programs. Washington, D.C.: U.S. General Accounting Office, August 15, 1984.

U.S. General Accounting Office. Export Promotion: Activities of the Commerce Department's District Offices. Washington, D.C.: U.S. General Accounting Office, February 1986.

U.S. General Accounting Office. Flood Insurance: Federal Emergency Management Agency's Basement Coverage Limitations. Washington, D.C.: U.S. General Accounting Office, January 1986.

U.S. General Accounting Office. Information on Forest Service Below-Cost Timber Sales for National Forests in Colorado. Washington, D.C.: U.S. General Accounting Office, August 3, 1984.

U.S. General Accounting Office. Inventory of Federal Programs Directly Related to Improving Private Sector Productivity. Washington, D.C.: U.S. General Accounting Office, December 14, 1984.

U.S. General Accounting Office. Subsidized Postage. Washington, D.C.: U.S. General Accounting Office, May 22, 1984.

U.S. General Accounting Office. Uses of Saltonstall/Kennedy Fisheries Development Funds. Washington, D.C.: U.S. General Accounting Office, August 15, 1985.

U.S. General Services Administration, Federal Procurement Data Center. Federal Procurement Data System Standard Report, Fiscal Year 1985 Fourth Quarter. Washington, D.C.: U.S. General Services Administration, Federal Procurement Data Center, March 15, 1986.

U.S. General Services Administration. Catalog of Federal Domestic Assistance. Nineteenth edition. Washington, D.C.: U.S. Government Printing Office, June 1985.

U.S. General Services Administration. Update to the Catalog of Domestic Federal Assistance. Nineteenth edition. Washington, D.C.: U.S. Government Printing Office, December 1985.

U.S. General Accounting Office. DOD Manufacturing Technology Program — Management is Improving Budget Benefits Hard to Measure. Washington, D.C.: U.S. General Accounting Office, November 30, 1984.

U.S. House of Representatives, Committee on Ways and Means. Tax Reform Act of 1985 - Report of the Committee on Ways and Means. Washington, D.C.: U.S. Government Printing Office, December 1985.

U.S. Senate, Committee on Finance. Tax Reform Act of 1986. Report to the Committee on Finance to Accompany H.R. 3838. Washington, D.C.: U.S. Government Printing Office, May 1986.

"Views Sought on U.S. Grazing Fees." The Washington Post. May 31, 1985, p. A21.

Weinberger, Caspar W., Secretary of Defense. Annual Report to Congress, Fiscal Year 1986. Washington, D.C.: U.S. Government Printing Office, February 4, 1985.

Willoughby, Jack. "What's Yours Is Mine." Forbes. July 28, 1986, p. 78.

PROGRAM CHARACTERISTIC CHART

PROGRAM	AGENCY	INDUSTRY	TYPE	PURPOSE	FY85 FUNDING
AGRICULTURAL INCOME STABALIZATION PROGRAMS					
Commodity Loans & Purchases	USDA	Agri.	Loans & Price Guarantee	IS	12.9 Bil
Production Stabalization Programs	USDA	Agri.	Price Guarantee	IS	7.3 Bil
Inventory Reduction Program	USDA	Agri.	Price Guarantee	IS	NA
Dairy Indemnity Program	USDA	Agri.	Govt. Insurance	ESP	33 Mil
Emergency Conservation Program	USDA	Agri.	Grants	ESP	11.4 Mil
National Wool Act Payments	USDA	Agri.	Grants	IS	102.5 Mil
Water Bank Program	USDA	Agri.	Grants	IS	9.8 Mil
Agricultural Conservation Program	USDA	Agri.	Grants	SDK	181.7 Mil
Grain Reserve Program	USDA	Agri.	Grants	IS	307 Mil
Milk Production Termination Program	USDA	Agri.	Govt. Purchase	IS	NA
Great Plains Conservation Program	USDA	Agri.	Grants	SDK	209 Mil
Conservation Reserve Program	USDA	Agri.	Grants	IS	NA

PROGRAM	AGENCY	INDUSTRY	TYPE	PURPOSE	FUNDING
INDIRECT SUPPORT OF AGRICULTURE					
Agricultural Research Service	USDA	Agri.	Free Service	SDR	487 Mil
Cooperative State Research Service	USDA	Agri.	Free Service	SDR	243 Mil
Agricultural Extension Services	USDA	Agri.	Free Service	RCD	338 Mil
Economic Research Service	USDA	Agri.	Free Service	SDR	45 Mil
Statistical Reporting Service	USDA	Agri.	Free Service	SDR	56 Mil
World Agricultural Outlook Board	USDA	Agri.	Free Service	SDR	1.6 Mil
Agricultural Marketing Service	USDA	Agri.	Cartel	IS	2.9 Mil
Soil Conservation Service	USDA	Agri.	Free Service	SDK	364.9 Mil
AGRICULTURAL LENDING PROGRAMS					
Farmers Home Administration Loans	USDA	Agri.	Loans & Loan Guarantees	OCR	9.5 Bil (aggregate)
Emergency Loans	USDA	Agri.	Loan Guarantees	ESP	479 Mil
Farm Labor Housing Loans and Grants	USDA	Agri.	Grants Loan	SDK	32 Mil
Farm Operating Loans	USDA	Agri.	Loan Guarantees	OCR	2.5 Bil
Farm Ownership Loans	USDA	Agri.	Loan Guarantees	SDK	700 Mil
Soil and Water Loans	USDA	Agri.	Loan Guarantees	SDK	28 Mil
Business & Industrial Loans	USDA	Agri.	Loan Guarantees	RCD	150 Mil

PROGRAM	AGENCY	INDUSTRY	TYPE	PURPOSE	FUNDING
Farm Credit System	Ind.	Agri.	System Capitalized By Govt.	--	none
AGRICULTURAL EXPORT PROGRAMS					
Foreign Agricultural Service	USDA	Agri.	Free Service	EP	76 Mil
CCC Export Financing Loans	USDA	Agri.	Loans & Loan Guarantees	EP	1.7 BIL
OTHER AGRICULTURAL PROGRAMS					
Crop Insurance	USDA	Agri.	Govt. Insurance	OCR	98 Mil
Grazing Rights	DOI	Agri.	Below Cost Service	OCR	10 Mil
Subsidized Irrigation Water	DOI	Agri.	Below Cost Service	OCR	NA
Expensing of Certain Agricultural Expenses	IRS	Agri	Tax Deduction	SDK	470 Mil
AVIATION PROGRAMS					
Payments for Essential Air Services	DOT	Aviation	Grants	OCR	33.6 Mil
Federal Air Traffic Control Expenditures	DOT	Aviation	Below Cost Service	OCR & SDK	1.17 Bil
Airport Improvement Grants	DOT	Aviation	Grants	SIS	789 Mil
Aviation Insurance Revolving Fund	DOT	Aviation	Govt. Insurance	OCR	none

PROGRAM	AGENCY	INDUSTRY	TYPE	PURPOSE	FUNDING
DEFENSE					
Defense Procurement	DOD	General	Govt. Purchases	NS	70.3 Bil
Science and Technology Program	DOD	General	Govt. Purchases	SDR/ NS	9 Bil (budg. req)
Defense Advanced Research Projects	DOD	General	Govt. Purchases	SDR/ NS	2.75
Independent R&D Program	DOD	General	Govt. Reimbursemt	SDR/ NS	NA
Bid and Proposal Reimbursement	DOD	General	Govt.	SDR/ NS	NA
ManTech Program	DOD	General	Grants	SDK/ NS	NA
Industrial Modernization Incentives	DOD	General	Govt. Reimbursemt	SDK/ NS	NA
Defense Production Act	DOD	General	Loans Price Guarantees/Govt Purchases	SDK/ NS	10 Mil (budg.auth)
Foreign Military Sales Program	DOD	Weapons Mfgers	Govt. Financing	EP	2.27 Bil
NASA	IND.	Aero-Space	Grants Govt. Purchases	SDK/ SDR	2.11 Bil (Research)
Completed Contracts Method of Accounting	IRS	Defense	Tax Expenditure	SDK	NA
ISHING					
Fishermen's Loan Fund	DOC	Fishing	Loans	OCR	3.8 Mil
Fishermen's Contingency Fund	DOC	Fishing	Govt. Insurance	OCR	568,000
Fishing Vessel and Gear Damage Fund	DOC	Fishing	Govt. Insurance	ESP	1.5 Mil

PROGRAM	AGENCY	INDUSTRY	TYPE	PURPOSE	FUNDING
Fisherman's Guaranty Fund	DOC	Fishing	Govt. Insurance	ESP	5.8 Mil.
Fishing Vessel Obligation Guarantees	DOC	Fishing	Loan Guarantees	SDK	157.9 Mil (contingent liability)
Fishery Development & Utilization Grants	DOC	Fishing	Grants	SDR	9.9 Mil
SHIPPING & SHIPBUILDING					
Operating Differential Subsidies	DOT	Shipping	Grants	OCR	351.7 Mil
Construction Differential Subsidies	DOT	Ship Building	Grants	OCR	NA
Federal Ship Financing Guarantees	DOT	Ship Building	Loan Guarantees	OCR	266.3 Mil
Cargo Preference	DOT	Shipping	Govt. Purchases	IS	NA
Maritime Research & Development Grants	DOT	Shipping Ship Building	Grants	SDRr	10 Mil
U.S. Coast Guard Services	DOT	Shipping Fishing	Free Service	OCR	976 Mil
Merchant Marine Capital Const. Fund	DOT	Shipping Ship Building	Tax Expenditure	SDK	130 Mil
Construction Reserve Fund	DOT	Shipping	Tax Expenditure	SDK	NA
COMMUNITY, REGIONAL & REGIONAL DEVELOPMENT					
Economic Development Administration	DOC	General	Grants	RCD	262.5 Mil
Urban Development Action Grants	HUD	Real Estate	Grants	RCD	496.6 Mil

PROGRAM	AGENCY	INDUSTRY	TYPE	PURPOSE	FUNDING
Community Development Block Grants	HUD	Housing	Grants	RCD	3.81 Bil
Urban Mass Transit Grants	DOT	General	Grants	RCD	1.97 Bil
Appalachian Regional Commission	Ind.	General	Grants	RCD	203.5 Mil
Tennessee Valley Authority	Ind.	General	Grants	RCD	914.3 Mil
Industrial Development Bonds	IRS	General	Tax Exempt Financing	SDK	3.69 Bil
SMALL BUSINESS PROGRAMS					
Economic Injury Disaster Loans	SBA	Small Business	Loans & Guaranteed Loans	ESP	84,000
Physical Disaster Loans	SBA	Small Business	Loans & Guaranteed Loans	ESP	300 Mil
Loans for Small Business	SBA	Small Business	Loans & Guaranteed Loans	SBD	116 Mil
Small Business Loans	SBA	Small Business	Loans & Guaranteed Loans	SBD	3.1 Bil
State & Local Development Company Loans	SBA	Small Business	Guaranteed Loans	SBD	25 Mil
Bond Guarantees for Surety Companies	SBA	Small Business	Guaranteed Loans/Bonds	SBD	900 Mil
Small Business Energy Loans	SBA	Small Business	Loans & Guaranteed Loans	SBD	1 Mil
Handicapped Assistance Loans	SBA	Small Business	Loans & Guaranteed Loans	SD	25 Mil.
Small Business Investment Companies	SBA	Small Business	Loans & Guaranteed Loans	SBD	270 Mil.
Currency Fluctuation Economic Injury Loans	SBA	Small Business	Loans & Guaranteed Loans	SBD	5 Mil.

PROGRAM	AGENCY	INDUSTRY	TYPE	PURPOSE	FUNDING
TRADE ENHANCEMENT, DUTY AND TARIFF PROGRAMS					
Trade Adjustment Assistance	DOC	General	Loans & Guaranteed Loans	ADJ	$6.58 Mil
U.S. Foreign Trade Zones	DOC	General	Duty Remission	OCR/ EP	NA
Tariff Treatment on Reimport of U.S. Product (TSUS 807)	Treasury	General	Duty Remission	EP	NA
Export Promotion Trade Development Services	DOC	General	Free Service	EP	79 Mil.
Export-Import Bank	Ind.	General	Loans & Guaranteed Loans	EP	8.5 Bil.
Export Trading Companies	DOC	General	Cartel	EP	NA
Overseas Private Investment Corp.	IND.	General	Govt. Insurance	EP	166.1 Mil.
Foreign Sales Corporation	IRS	General	Tax Expenditure	EP	910 Mil.
ENERGY					
Federal Power Marketing Admin.	DOE	General	Below Cost Service	OCR	573.1 Mil (BA)
Rural Electrification Administration	IND.	Agri.	Loans & Guaranteed Loans	RCD	636 Mil.
Uranium Enrichment	DOE	Electric Utility	Below Cost Serivce	NS	1.7 Bil

PROGRAM	AGENCY	INDUSTRY	TYPE	PURPOSE	FUNDING
Clean Coal Technology Program	DOE	Coal, Electric Utility	Grants	SDR	none
Energy Research & Development	DOE	Energy	Grants	SDR	$5.3 Bil
Federal Energy Leasing Programs	DOI	Energy	Below Cost Service	SDK	NA
Alcohol Fuels Program	DOE	Energy	Loan Guarantees	SDK	NA
U.S. Synfuels Program	Treasury	Energy	Guaranteed Loans/Price Supports	SDK	40.8 Mil.
Natural Gas Price Controls	DOE	Petrochemical	Price Regulation	OCR	NA
Geological Survey	DOI	Oil/Gas	Below Cost Service	SDR	445.5
Tax Credit for Nonconvential Fuels	IRS	Energy	Tax Expenditure	IS	10 Mil.
Energy Tax Credit	IRS	Energy	Tax Expenditure	SDK	270 Mil.
Alcohol Fuels Tax Credit & Related Exemption to Excise Tax	IRS	Energy	Tax Expenditure	IS	365 Mil.
Intangible Drilling & Development Costs for Oil & Gas	IRS	Oil/Gas	Tax Expenditure	SDK	585 Mil.
Deduction for Tertiary Injectants	IRS	Oil/Gas	Tax Expenditure	OCR	NA
Oil and Gas Depletion Allowance	IRS	Oil/Gas	Tax Expenditure	SDK	1.35 Bil

PROGRAM	AGENCY	INDUSTRY	TYPE	PURPOSE	FUNDING
MINING					
Capital Gains for Royalty Income from Coal & Iron Ore	IRS	Coal Iron Ore	Tax Expenditure	SDK	110 Mil.
Hard Minerals-Depletion	IRS	Mining	Tax Expenditure	SDK	330 Mil.
Expensing of Mining Exploration & Development Costs	IRS	Mining	Tax Expenditure	SDK	55 Mil
Reclamation Costs for Mining & Solid Waste	IRS	Mining	Tax Expenditure	SDK	40 Mil
Bureau of Mines	DOI	Mining	Free Service	SDR	149.1 Mil.
TIMBER					
Forestry Incentives Program	USDA	Forest Products	Grants	SDK	12.5 Mil.
Below-Cost Sale of Federal Timber	USDA	Forest Products	Below Cost Services	SDK	NA
Capital Gains for Timber	IRS	Forest Products	Tax Expenditure	SDK	250 Mil.
Capital Amortization and Tax Credit for Reforestation	IRS	Forest Products	Tax Expenditure	OCR	20 Mil.
BANKING & FINANCIAL INSTITUTIONS					
Federal Reserve Deposit Window	FED	Banking	Loans	OCR	NA
Deduction for Bad Debt	IRS	Banking	Tax Expenditure	OCR	none
RAILROADS					
Amtrak Grants	DOT	Railroad	Grants	SDK/ OCR	764 Mil.
Railroad Rehab. Guarantee of Oblig.	DOT	Railroad	Loan Guarantees	SDK	2.5 Mil.
Railroad Rehab. Redeemable Pref.Share	DOT	Railroad	Loans	SDK	16.2 Mil

PROGRAM	AGENCY	INDUSTRY	TYPE	PURPOSE	FUNDING
GENERALLY AVAILABLE PROGRAMS					
National Flood Insurance Program	FEMA	General	Govt. Insurance	OCR	none
Federal Crime Insurance Program	FEMA	General	Govt. Insurance	OCR	14.5 Mil.
Subsidized Postage	USPS	Publishing	Below Cost Service	OCR	917 Mil.(BA)
Job Training & Partnership Act	DOL	General	Grants	OCR	3.41 Bil.
Minority Business Development Agency	DOC	General	Grants	SD	54.3 Mil.
Targeted Job Tax Credit	IRS	General	Tax Expenditure	OCR	440 Mil.
Depreciation Deduction &Investment Tax Credit	IRS	General	Tax Expenditure	OCR	48 Bil.
Research & Experiment Tax Credit	IRS	General	Tax Expenditure	SDR	1.6 Bil.
Expensing of Research & Experiment Expense	IRS	General	Tax Expenditure	SDR	3.73 Bil.
Possessions Tax Credit	IRS	General	Tax Expenditure	RCD	1.6 Bil.
Convention Attendance Deduction	IRS	General	Tax Expenditure	IS	NA

PROGRAM	AGENCY	INDUSTRY	TYPE	PURPOSE	FUNDING
CULTURE AND THE ARTS					
National Foundation for the Arts and Humanities	Ind.	Arts	Grants	CMD	316.8 Mil
Corporation for Public Broadcasting	Ind.	Arts	Grants	CMD	150.5 Mil
Smithsonian Institution	Ind.	Arts	Free Services	CMD	226.3 Mil

APPENDIX B

* = Direct Expenditure Equivalent to a Tax Expenditure

PROGRAM FUNDING CHART

(Millions of Dollars)

PROGRAM	FY83	FY84	FY85	FY86
AGRICULTURAL INCOME STABALIZATION PROGRAMS				
Commodity Loans & Purchases (payments)	21,400	12,930	12,870	18,800
Production Stabalization Programs (payments)	4,670	4,500	7,130	11,750
Inventory Reduction Program	NA	NA	NA	NA
Dairy Indemnity Program (outlays)	6.1	2.4	.033	.160
Emergency Conservation Program (outlays)	9.8	15.5	11.4	10.0
National Wool Act Payments (payments)	88.2	123.2	102.5	113.0
Water Bank Program (outlays)	10.8	10.0	9.8	10.0
Agricultural Conservation Program (outlays)	179.7	180.0	181.7	206.0
Grain Reserve Program (payments)	1,112	278	307	611.5
Milk Production Termination Program	NA	NA	NA	NA
Great Plains Conservation Program (outlays)	21.2	21.0	20.9	21.1
Conservation Reserve Program	NA	NA	NA	NA

PROGRAM	FY83	FY84	FY85	FY86(est)
INDIRECT SUPPORT OF AGRICULTURE				
Agricultural Research Service(outlays)	459.8	481.0	487.3	474.9
Cooperative State Research Service(outlays)	220.5	239.5	243.6	278.9
Agricultural Extension Services (outlays)	322.7	339.5	338.0	342.9
Economic Research Service (outlays)	36.8	40.9	45.1	46.6
Statistical Reporting Service (outlays)	49.4	55.5	56.5	58.6
World Agricultural Outlook Board (outlays)	1.3	1.5	1.6	1.6
Agricultural Marketing Service (outlays)	8.2	38.3	21.9	32.9
Soil Conservation Service (outlays)	327.4	353.0	367.8	361.6
AGRICULTURAL LENDING PROGRAMS				
Farmers Home Administration Loans (aggregate budget auth)	7,314	7,995	9,511	NA
Emergency Loans (value of ins.loans)	2,173	1,000	479	NA
Farm Labor Housing - Loans	3.9	5.4	20	12
- Grants	7.5	9.8	12	19
Farm Operating Loans (value of ins.loans)	1,735	2,000	2,500	NA

PROGRAM	FY83	FY84	FY85	FY86
Farm Ownership Loans (value of ins.loans)	749	700	700	NA
Soil and Water Loans (value of ins.loans)	12.2	12.5	28	NA
Business & Industrial Loans (value of ins.loans)	82.0	124	150	NA
Farm Credit System	None	None	None	None
AGRICULTURAL EXPORT PROGRAMS				
Foreign Agricultural Service (outlays)	70.6	73.7	76.2	83.2
CCC Export Financing (outlays)	99	1,080	1,700	1,400
OTHER AGRICULTURAL PROGRAMS				
Crop Insurance (premium subsidy)	91.4	64.5	98.8	103.0
Grazing Rights (rangeland improvement)	10.3	8.8	10	10
Subsidized Irrigation Water	NA	NA	NA	NA
Expensing of Certain Agricultural Expenses (tax expenditure)	560 570*	640 650*	470 470*	500 500*

	FY83	FY84	FY85	FY86(est)
AVIATION PROGRAMS				
Payments for Essential Air Services (outlays)	NA	40.9	33.6	39.0
Federal Air Traffic Control Expenditures (outlays)	1,060	1,090	1,170	1,210
Airport Improvement Grants (outlays)	452	694	789	776
Aviation Insurance Revolving Fund	None	None	None	None
DEFENSE				
Defense Procurement (outlays)	53,600	61,800	70,300	75,700
Science and Technology Program	NA	NA	NA	NA
Defense Advanced Research Projects	822	1,350	2,750	4,230
Independent R&D Program	NA	NA	NA	NA
Bid and Proposal Reimbursement	NA	NA	NA	NA
ManTech Program (est.)	131	200	NA	NA
Industrial Modernization Incentives	NA	NA	NA	NA
Defense Production Act	None	None	None	10.0
Foreign Military Sales Program (outlays)	609	1,050	2,270	3,860
NASA (research budget)	5,300	2,790	2,110	2,650
Completed Contracts Method of Accounting (tax expenditure)	NA	NA	8,000 (approx.)	NA

PROGRAM	FY83	FY84	FY85	FY86(est)
FISHING				
Fisheries Loan Fund (outlays)	.15	1.6	3.8	.37
Fishermen's Contingency Fund (outlays)	327	484	568	750
Fishing Vessel & Gear Damage Fund (outlays)	.82	1.5	.57	3.7
Fisherman's Guaranty Fund (claims & indemnities)	1.5	.73	5.8	3.10
Fishing Vessel Obligation Guarantees (total contingent liability	174.3	155.6	157.9	162.9
Fishery Development & Utilization Grants (outlays)	8.7	8.4	9.90	8.0
SHIPPING & SHIPBUILDING				
Operating Differential Subsidies (outlays)	368.1	384.2	351.7	311.5
Construction Differential Subsidies	NA	NA	NA	NA
Federal Ship Financing Guarantees (outlays)	13.7	none	* 266.3	509.0
Cargo Preference	NA	NA	NA	NA
Maritime Research & Development Grants(outlays)	13.4	10.0	10.1	11.9
U.S. Coast Guard Services (Program Expenditures)	1,000	1,300	976	983
Merchant Marine Capital Const. Fund (Tax Expenditure)	30 35*	40 40*	130 130*	40 40*
Construction Reserve Fund (Tax expenditure)	less than 10	--	--	--
U.S. Corp of Engineers Navigation Activities	672	665	700	758

PROGRAM	FY83	FY84	FY85	FY86
COMMUNITY, REGIONAL & REGIONAL DEVELOPMENT				
Economic Development Administration (outlays)	264.9	266.0	262.5	230.3
Urban Development Action Grants (outlays)	450.7	453.9	496.6	500
Community Development Block Grants (outlays)	3,550	3,810	3,810	3,570
Urban Mass Transit Grants (outlays)	2,360	1,690	1,970	2,080
Appalachian Regional Commission (outlays)	263.4	212.1	203.5	154.3
Tennessee Valley Authority (outlays)	869.0	351.1	914.3	420.0
Industrial Development Bonds (Tax Expenditure)	2,080 3,560*	2,700 3,320*	3,620 3,690*	4,210 4,300*
SMALL BUSINESS PROGRAMS				
Economic Injury Disaster Loans (loans)	14.4	.084	.030	NA
Physical Disaster Loans (loans)	184	314	300	300
Loans for Small Business (value of loans & guarantees loans	46.5	68.5	116	60
Small Business Loans (value of loans & guaranteed loans)	2,850	2,910	3,110	NA
Handicapped Assistance Loans (value of loans & guaranteed loans)	25	16.4	25	NA
Small Business Investment Companies(value of loans & guaranteed lns)	187	196.5	270	NA
Certified Development Company Loans (Guaranteed loans)	270	318.0	300.0	NA

PROGRAM	FY83	FY84	FY85	FY86(est)
State & Local Development Company Loans (value of guaranteed loans)	26	30	25	NA
Bond Guarantees for Surety Companies (value of guaranteed bonds)	567	571	900	1.0
Small Business Energy Loans (value of loans & guaranteed loans	3.62	1.8	1.0	NA
Handicapped Assistance Loans (value of loans& guaranteed loans)	16.4	16.4	25.0	NA
Small Business Investment Companies(value of loans & guaranteed loans)	187	196.5	270	NA
Currency Fluctuation Economic Injury Loans	none	none	5	NA
TRADE ENHANCEMENT, DUTY AND TARIFF PROGRAMS				
Trade Adjustment Assistance (loans & loan guarantees)	14.4	23.0	6.58	none
U.S. Foreign Trade Zones	NA	NA	NA	NA
Tariff Treatment on Reimport of U.S. Product (TSUS 807)	NA	NA	NA	NA
Export Promotion & Trade Development Services (budgt auth.)	79.8	79.5	79.0	76.7
Export-Import Bank (loans & loan guarantees)	9,360	6,610	8.50	NA
Export Trading Companies	NA	NA	NA	NA
Overseas Private Investment Corp. (loans & loan guarantees & other assist.)	111.1	111.1	166.1	NA
Foreign Sales Corporations	950 4,160*	850 1,420*	910 1,151*	1,030 1,550*

PROGRAM	FY83	FY84	FY85	FY86(est)
ENERGY				
Federal Power Marketing (budget auth.)	592.4	551.4	573.1	558.3
Rural Electrification Administration(loans & loans guarantees)	4,230	1,747	636	1,500
Uranium Enrichment (outlays)	1,600	1,800	1,700	1,200
Clean Coal Technology Program (outlays)	None	None	None	99.4
Energy Research & Development (budg. auth)	NA	4,930	5,300	5,100
Federal Energy Leasing Programs	NA	NA	NA	NA
Alcohol Fuels Program	NA	NA	NA	NA
U.S. Synfuels Program (outlays)	14.9	16.9	40.8	40.9
Natural Gas Price Controls	NA	NA	NA	NA
Geological Survey (outlays)	422.3	410.0	445.4	440.9
Tax Credit for Nonconvential Fuels (tax expenditure)	10 15*	10 35*	10 15*	10 15*
Energy Tax Credit	300 405*	230 205*	270 385*	155 190*
Alcohol Fuels Tax Credit & Related Exemption to Excise Tax (tax expenditure)	160	215	365	445
Intangible Drilling & Development Costs for Oil & Gas (tax expenditure)	3,160 2,335*	1,420 1,595*	585 490*	555 620*
Deduction for Tertiary Injectants (tax expenditure)	NA	NA	NA	NA
Depletion Allowance (excess of % over cost depletion)	1,280 1,720*	1,175 1,640*	355 2,005*	270 1,880*

PROGRAM	FY83	FY84	FY85	FY86(est)
MINING				
Capital Gains for Royalty Income from Coal & Iron Ore (tax expenditure)	195 310*	115 190*	110 160*	110 165*
Hard Minerals-Depletion (tax expenditure)	290 470*	330 485*	330 465*	345 485*
Expensing of Mining Exploration & Development Costs (tax expenditure)	55 55*	less that 5	55 80*	55 85*
Reclamation Costs for Mining & Solid Waste (tax expenditure)	NA	NA	40 40*	50 55*
Bureau of Mines (outlays)	147.6	160.2	149.1	145.8
TIMBER				
Forestry Incentives Program (outlays)	10.5	10.8	12.4	13.6
Below-Cost Sale of Federal Timber	NA	NA	NA	NA
Capital Gains for Timber (tax expenditure)	270 735*	295 485*	350 475*	410 670*
Capital Amortization and Tax Credit for Reforestation (tax expenditure)	15 30*	20 40*	20 40*	25 45*
BANKING & FINANCIAL INSTITUTIONS				
Federal Reserve Discount Window	NA	NA	NA	NA
Deduction for Bad Debt Reserve (tax expenditure)	405 608*	635 1,110*	-115 -180*	35 60*

PROGRAM	FY83	FY84	FY85	FY86
RAILROADS				
Amtrak Grants (outlays)	665.4	1,119	763.8	696.4
Railroad Rehabilitation Guarantee of Obligation	15	5.8	2.5	4.0
Railroad Rehabilitation Redeemable Pref Notes	30.7	42.4	16.7	33.5
GENERALLY AVAILABLE PROGRAMS				
National Flood Insurance Program (outlays)	137	145	-119	51.2
Federal Crime Insurance Program (outlays)	15.8	13.7	14.5	23.0
Subsidized Postage (budget auth.)	771.4	717.1	917.5	782.4
Job Training & Partnership Act(outlays)	3,850	3,190	3,410	3,480
Minority Business Development Agency	57	50.8	54.3	51.7
Targeted Job Tax Credit	455 660*	330 420*	440 485*	400 420*
Investment Tax Credit (tax expenditure)	21,245 20,575*	23,445 27,800*	24,445 32,840*	25,525 35,100 *
Depreciation Tax Credit (tax expenditure)	10,920 12,950*	14,090 14,630*	20,145 21,460*	23,025 22,940*
Research & Experimental Tax Credit (tax expenditure)	615 970*	1,380 3,360*	1,665 2,430*	1,055 1,245*
Expensing ot Research & Experiment Expense (tax expenditure)	870 1,160*	3,495 3,335*	3,590 3,730*	3,335 2,925*
Possessions Tax Credit (tax expenditure)	1,350 32,020*	1,310 32,865	1,660 34,880*	1,825 34,700*
Convention Attendance Deduction	NA	NA	NA	NA

CULTURE AND THE ARTS				
National Foundation for the Arts and Humanities (outlays)	261.0	310.5	316.8	346.4
The Corporation for Public Broadcasting (outlays)	137	137.5	150.5	159.5
Smithsonian Institution (outlays)	193.7	211.0	226.3	238.6

GLOSSARY OF KEY FEDERAL AGENCIES

Department of Agriculture

The Department of Agriculture has responsibility for programs affecting rural America, the farm economy, food and nutrition, and natural resources that relate to agriculture.

Agricultural Stabilization and Conservation Service (ASCA). The ASCA is an agency of the Department of Agriculture that administers commodity and related land-use programs to adjust production, protect resources, and stabilize farm income. The ASCA administers the programs funded through the Commodity Credit Corporation.

Commodity Credit Corporation (CCC). The CCC serves as the central bank for the government's farm programs. The purpose of the CCC is to stabilize support and protect farm income and prices and facilitate orderly distribution of commodities.

Farm Credit Administration (FCA). The FCA is an independent regulatory board, appointed by the Secretary of Agriculture, that oversees the the Farm Credit System (a network of federally sponsored, cooperatively owned agricultural lending institutions).

Farmers Home Administration (FmHA). The FmHA is an agency within the Department of Agriculture that provides loans to those in rural America who are unable to get credit from other sources at reasonable rates and terms.

Federal Crop Insurance Corporation (FCIC). The FCIC is a federally owned corporation that facilitates the system of crop insurance by subsidizing premiums and reinsuring the private insurance companies that underwrite farmers.

Forest Service. The Forest Service is the branch of the Agriculture Department responsible for administering the National Forest system and conducting research related to forestry.

Rural Electrification Administration (REA). The REA is a credit agency in the Department of Agriculture that assists rural electric and telephone utilities obtain financing.

Department of Commerce

The Department of Commerce is the lead agency for issues that relate to the commerce and industry of the United States, economic growth, and international trade. The Census Bureau, the National Bureau of Standards, and the International Trade Administration are all under the jurisdiction of the Department of Commerce. Other key subdivisions include:

Economic Development Administration (EDA). The EDA is a division of the Commerce Department that provides assistance to economically distressed areas to create jobs and stimulate growth.

Minority Business Development Agency (MBDA). The MBDA has as its main purpose the encouragement of minority business enterprise by providing management and technical assistance to minority firms through a network of federally funded centers.

The National Oceanic and Atmospheric Administration (NOAA). NOAA has responsibility for coastal management issues, including programs that regulate and promote the fishing industry, which are managed by the National Marine Fisheries Service, a division of NOAA.

Department of Defense

The Department of Defense is the lead agency responsible for providing military forces to protect the nation. The Defense Department is primarily a policy-making agency, with operations controlled by the separate service departments—the Department of the Army, the Department of the Navy, and the Department of the Air Force. These service departments are linked to the Defense Department through the Joint Chiefs of Staff.

The Army Corps of Engineers. The Army Corps of Engineers manages and executes all engineering and construction programs for the Army and the Air Force. Its Civil Works Division is responsible for activities related to the nation's rivers, waterways, and harbors. The Corps of Engineers shares the responsibility for management of the nation's water resources with the Bureau of Reclamation.

Department of the Interior

The Department of the Interior (DOI) is the lead agency responsible for managing the natural resources of the United States. DOI's jurisdiction includes mineral programs; land and water resource programs; fish, wildlife, and conservation programs; the National Parks, Wildlife Refuges, and Wilderness Areas; and Indian and territorial affairs. Key divisions of the DOI include:

The Bureau of Land Management (BLM). The BLM has responsibility for the management of public lands and administering the leasing of mineral, grazing, and oil and gas permits to the private sector.

The Bureau of Mines. The Bureau of Mines is primarily a research and fact-finding agency that studies issues related to the mining industry. The Bureau publishes statistical and technical information on mineral resource development.

The Bureau of Reclamation. The Bureau of Reclamation is responsible for the construction, operation, and maintenance of federal dam and irrigation systems in western states. The Bureau of Reclamation and the U.S. Army Corps of Engineers (a division of the Defense Department) together have responsibility for water resource development in the United States.

The U.S. Geological Survey (USGS). The USGS performs research on the topography, geology, and mineral and water resources of the United States, including work on mineral, oil, and gas reserves.

The Mineral Management Service (MMS). The MMS is responsible for managing the mineral resources, including oil and gas, found on the outer continental shelf of the United States.

Department of Energy

The Department of Energy was created in 1977 by consolidating the major federal energy programs into a single agency. It includes energy research and development, energy regulatory programs, the federal power-marketing agencies, and nuclear programs. A major portion of the Department of Energy's nuclear programs are defense related.

Department of Labor

The Department of Labor is responsible for promoting the welfare of wage earners. It enforces federal labor laws including minimum wage laws and health and safety regulations.

Employment and Training Administration (ETA). The ETA is the division of the Labor Department that executes the Labor Department's responsibilities relating to employment, job training, and unemployment insurance. Among its duties are the investigation of worker petitions for Trade Adjustment Assistance and administration of the Job Training Partnership Act.

Department of Transportation

The Department of Transportation has responsibility for coordinating the nation's transportation policies and programs. Key functions include:

Federal Aviation Administration (FAA). The Federal Aviation Administration regulates air commerce, administers the nation's air traffic control system, provides financial assistance for airport improvement, operates the airports that serve the nation's capital, enforces safety regulations, and performs research and evaluation activities.

Federal Railroad Administration (FRA). The purpose of the Federal Railroad Administration is to enforce rail safety regulations, administer railroad financial assistance programs, and conduct research on rail transportation safety and policy issues.

Maritime Administration (MA). The Maritime Administration administers programs to aid in the development, promotion, and operation of the U.S. Merchant Marine. It administers subsidies through the Maritime Subsidy Board and also operates the U.S. Merchant Marine Academy.

Urban Mass Transit Administration (UMTA). The Urban Mass Transit Administration is charged with the responsibility of assisting in the development of the nation's mass transportation facilities, encouraging the planning of cost-effective area-wide mass transit systems and providing financial assistance to state and local governments.

U.S. Coast Guard. The U.S. Coast Guard assists navigational activities; enforces maritime laws, regulations, and safety requirements; and has responsibility for implementing certain policies that protect the marine environment. The Coast Guard is considered a branch of the Armed Forces and operates as part of the Navy during wartime.

Department of the Treasury

The Department of the Treasury formulates the nation's tax and fiscal policies, serves as financial agency of the United States by collecting taxes and enforcing Customs regulations. Treasury operates the nation's mint and printing and engraving bureau. The Treasury Department also has law enforcement responsibilities through the Bureau of Alcohol, Tobacco and Firearms.

The Internal Revenue Service. The Internal Revenue Service is responsible for administering and enforcing the federal tax laws.

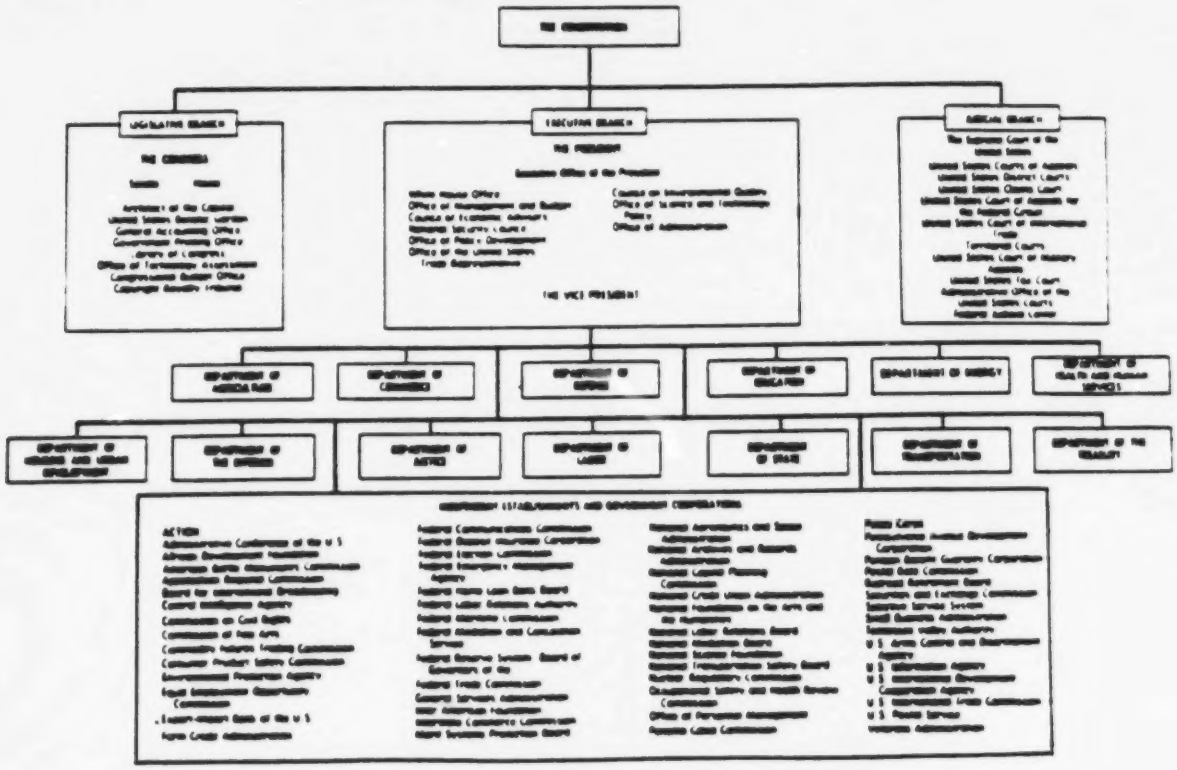
APPENDIX D

ACRONYMS FOR KEY AGENCIES AND PROGRAMS

ACP	Agricultural Conservation Program
AMS	Agricultural Marketing Service
Amtrak	National Railroad Passenger Corporation
APHIS	Animal and Plant Health Inspection Service
ASCS	Agricultural Stabilization and Conservation Service
BLM	Bureau of Land Management
BuRec	Bureau of Reclamation
BPA	Bonneville Power Administration
CBO	Congressional Budget Office
CCC	Commodity Credit Corporation
CDBG	Community Development Block Grants
DARPA	Defense Advanced Research Projects Agency
DOC	Department of Commerce
DOD	Department of Defense
DOE	Department of Energy
DOI	Department of the Interior
DOT	Department of Transportation
EDA	Economic Development Administration
Eximbank	Export-Import Bank of the United States
FAA	Federal Aviation Administration
FCA	Farm Credit Administration
FDIC	Federal Deposit Insurance Corporation
Fed	Federal Reserve Board
FEMA	Federal Energy Management Agency
FIA	Federal Insurance Administration
FIP	Forestry Incentives Program
FmHA	Farmers' Home Administration
FRA	Federal Railroad Administration
HUD	Department of Housing and Urban Development
IRS	Internal Revenue Service
ITA	International Trade Administration
JPTA	Job Training Partnership Act
MA	Maritime Administration
MBDA	Minority Business Development Agency
MMS	Minerals Management Service
NASA	National Aeronautics and Space Administration
NFIP	National Flood Insurance Program
NOAA	National Oceanic and Atmospheric Administration
NMFS	National Marine Fisheries Service
OMB	Office of Management and Budget
OPIC	Overseas Private Investment Corporation
PMA	Power Marketing Administration
RCWP	Rural Clean Water Program
REA	Rural Electrification Administration
SBA	Small Business Administration
SCS	Soil Conservation Service
TDP	Trade and Development Program

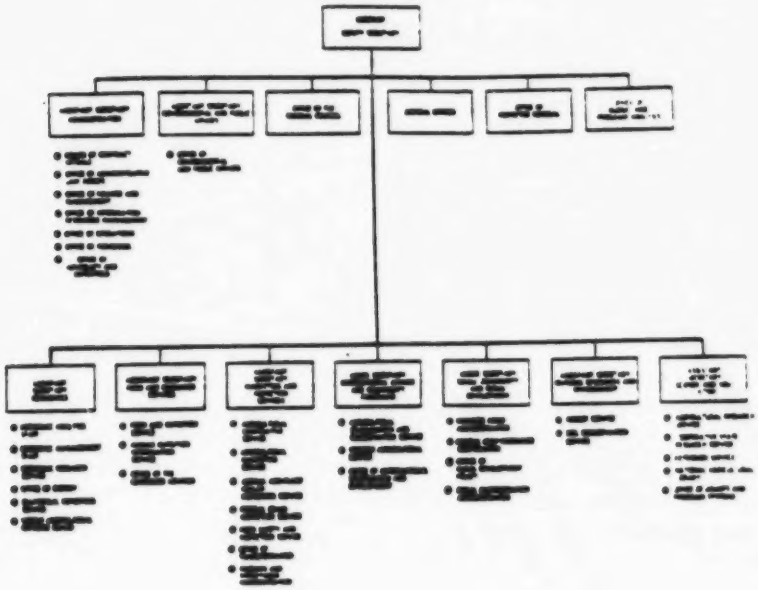
TVA	Tennessee Valley Authority
UDAG	Urban Development Action Grant
UMTA	Urban Mass Transit Administration
USCG	U.S. Coast Guard
USDA	U.S. Department of Agriculture
USFS	U.S. Forest Service
USGS	U.S. Geological Survey

THE GOVERNMENT OF THE UNITED STATES

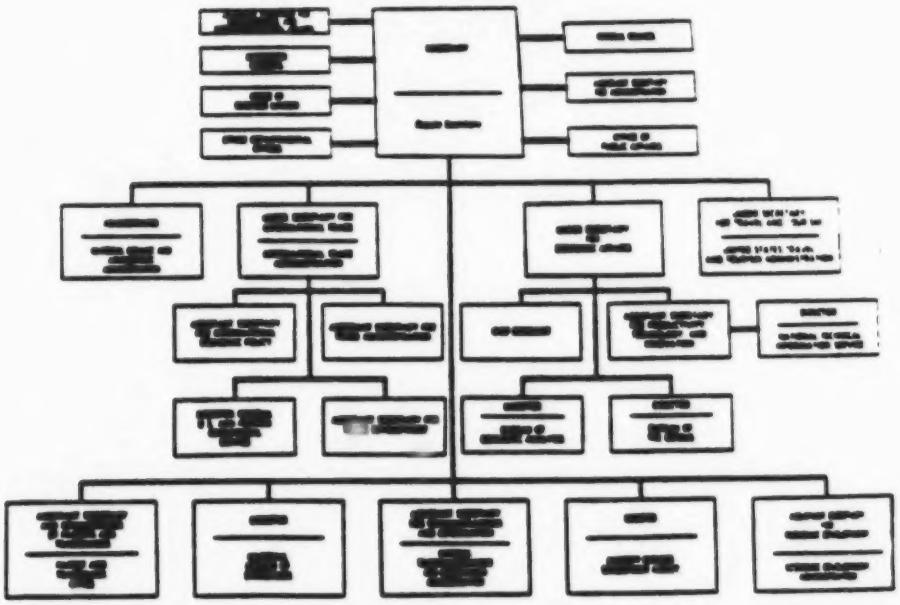


Appendix E

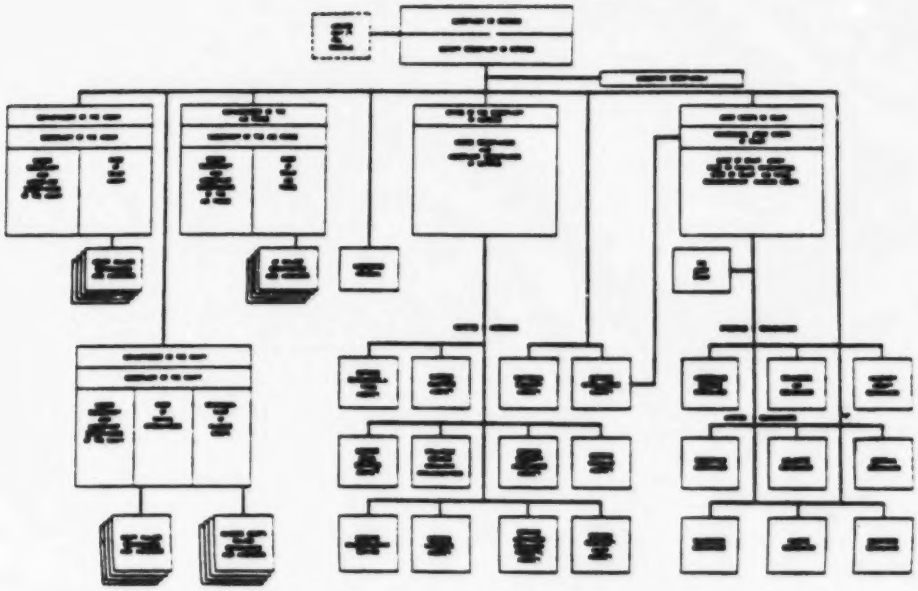
DEPARTMENT OF AGRICULTURE



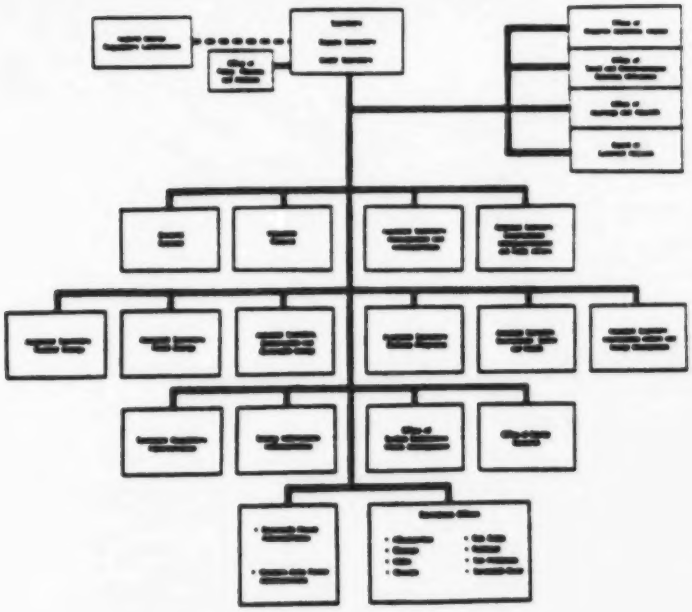
DEPARTMENT OF COMMERCE



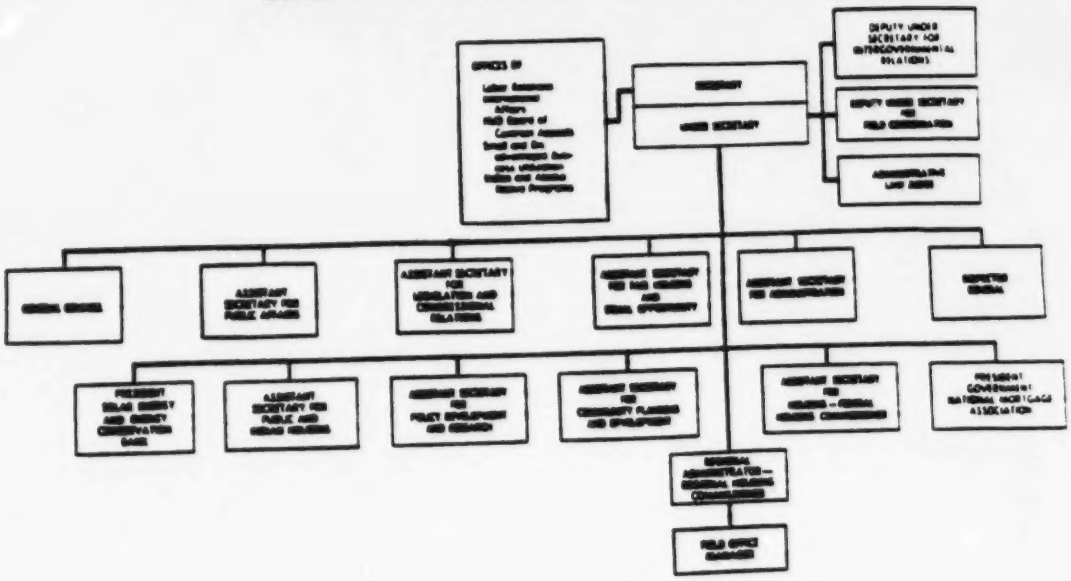
DEPARTMENT OF DEFENSE



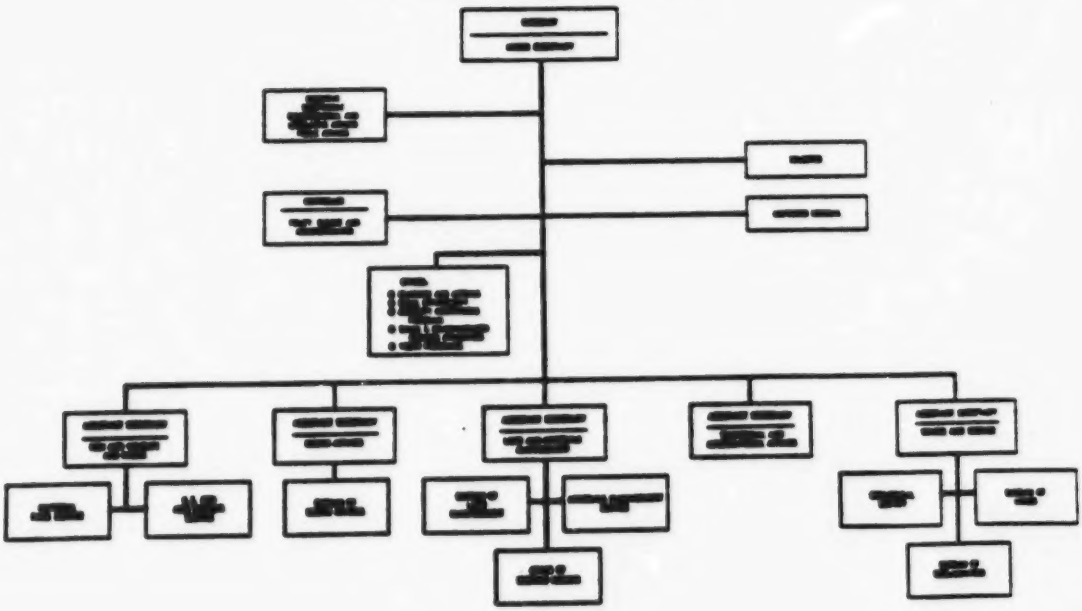
DEPARTMENT OF ENERGY



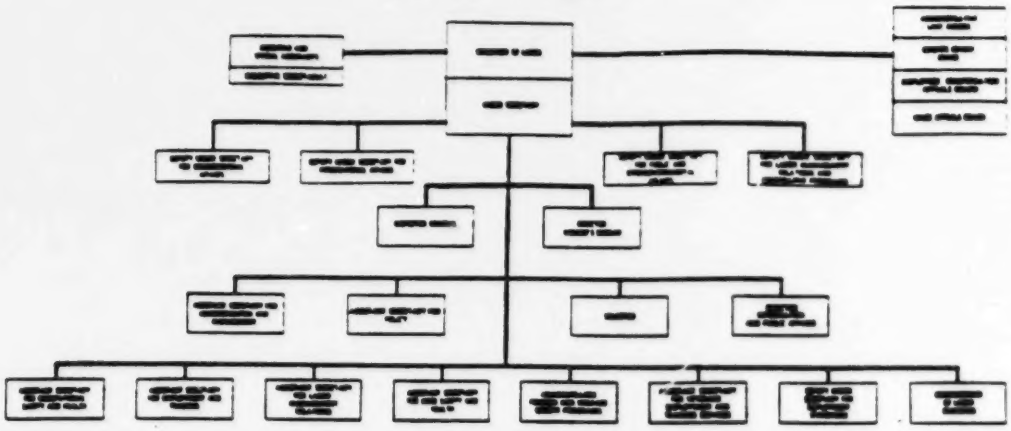
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT



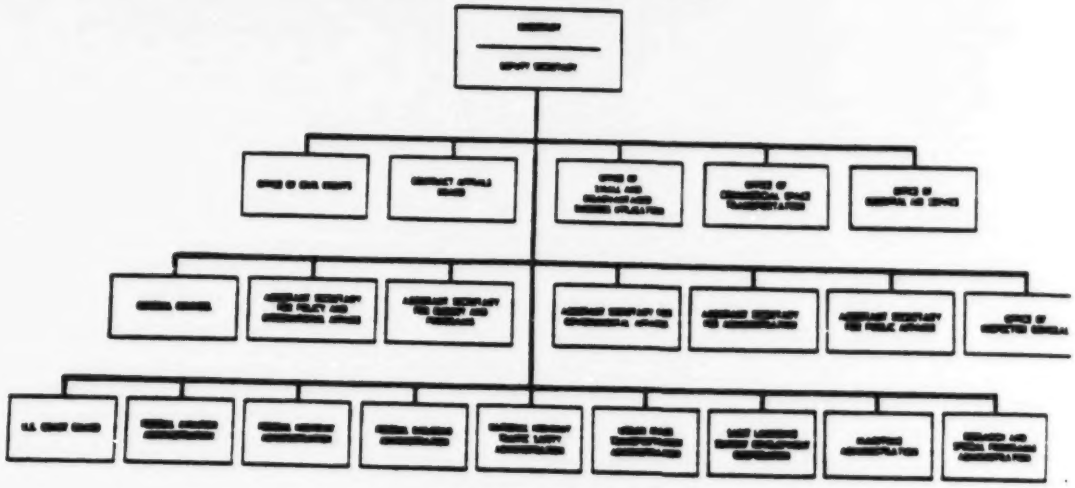
DEPARTMENT OF THE INTERIOR



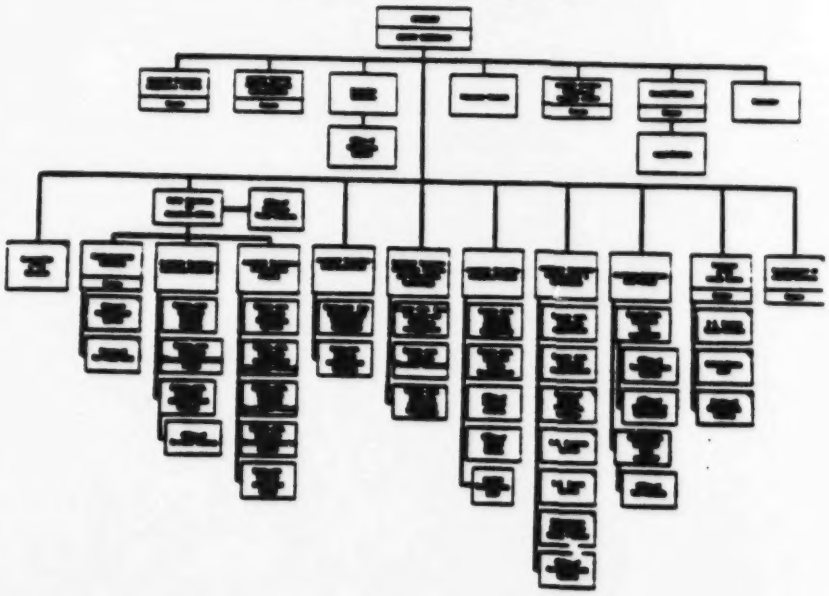
DEPARTMENT OF LABOR



DEPARTMENT OF TRANSPORTATION



DEPARTMENT OF THE TREASURY



DEFENSE SPENDING BY STATE

The chart shows the DEIMS projections of 1985 state-by-state defense spending based on direct purchases (Pentagon payroll and purchases of goods and services), indirect purchases (spending by defense contractors) and the economic impact of spending by Pentagon employees, all in billions of 1984 dollars. Share of net state product is the total impact of defense-related spending as a percentage of the Pentagon's estimate of net state product (° denotes a tie).

State	Direct purchases	Rank	Indirect purchases	Rank	Indirect payroll impact	Rank	Total defense spending	Rank	Share of state net product	Rank
Ala.	$2.89	21	$1.75	25	$1.41	23	$6.05	23	6.2%	22°
Alaska	0.88	38	0.24	48	0.20	50	1.32	43	9.3	6
Ariz.	2.83	22	2.53	18	1.06	30	6.42	21	7.8	10
Ark.	1.12	35	0.96	35	0.87	32	2.94	32	5.1	33
Calif.	42.75	1	20.38	1	10.52	1	73.65	1	9.9	5
Colo.	3.36	18	1.89	24	1.49	21	6.75	20	6.5	18°
Conn.	5.76	10	3.54	12	1.34	26	10.65	12	10.7	3
Del.	0.34	46	0.29	45	0.32	45	0.94	46	4.2	46°
D.C.	1.55	32	0.45	42	0.44	38	2.44	37	6.5	18°
Fla.	9.60	5	4.27	9	4.15	7	18.03	5	6.3	21
Ga.	4.78	13	2.38	19	2.53	11	9.69	17	5.7	28°
Hawaii	2.28	25	0.26	47	0.40	41	2.94	33	10.8	2
Idaho	0.30	48	0.30	43	0.32	44	0.91	47	4.3	45
Ill.	4.18	15	5.94	6	4.99	4	15.10	8	4.5	41°
Ind.	3.60	17	4.10	11	2.24	13	9.94	16	6.2	22°
Iowa	0.77	39	0.98	34	1.19	28	2.93	34	3.9	51
Kan.	2.54	23	1.63	27	1.16	29	5.33	26	6.8	17
Ky.	1.68	30	1.39	28	1.36	25	4.43	29	4.9	35°
La.	3.02	20	2.62	16	2.09	15	7.72	19	5.7	28°
Maine	0.88	37	0.53	40	0.41	39	1.82	41	7.0	16
Md.	5.91	9	2.60	17	1.58	20	10.10	15	9.0	7
Mass.	7.03	6	4.92	7	2.46	12	14.41	9	8.3	8
Mich.	3.25	19	4.23	10	3.87	8	11.35	11	4.2	46°
Minn.	2.22	28	2.27	20	1.81	19	6.30	22	5.0	34
Miss.	2.26	26	1.18	30	0.81	33	4.25	30	7.9	9
Mo.	5.44	12	3.08	14	2.08	16	10.60	14	7.5	12
Mont.	0.26	50	0.29	44	0.28	46	0.83	48	4.5	41°
Neb.	0.71	41	0.53	39	0.58	34	1.93	40	4.4	43°
Nev.	0.53	43	0.24	49	0.38	42	1.16	44	4.6	40
N.H.	1.03	36	0.68	36	0.37	43	2.09	38	7.7	11
N.J.	4.61	14	4.30	8	3.37	9	12.27	10	5.5	31
N.M.	1.32	34	0.66	37	0.49	37	2.47	36	7.1	15
N.Y.	10.69	4	9.74	3	7.32	3	27.74	3	5.8	26°
N.C.	3.62	16	2.27	21	2.76	10	8.64	18	4.8	37
N.D.	0.38	45	0.16	50	0.27	47	0.81	49	4.9	35°
Ohio	5.72	11	6.38	5	4.26	6	16.37	7	5.4	32
Okla.	2.25	27	1.68	26	1.38	24	5.31	27	5.8	26°
Ore.	0.75	40	1.04	31	0.87	31	2.66	35	4.2	46°
Pa.	6.64	7	6.85	4	4.67	5	18.16	4	5.7	28°
R.I.	0.70	42	0.99	38	0.40	40	1.89	42	6.4	20
S.C.	2.54	24	1.30	29	1.21	27	5.05	28	5.9	25
S.D.	0.26	49	0.15	51	0.26	48	0.68	51	4.1	49°
Tenn.	1.85	29	2.16	22	1.88	18	5.88	24	4.7	38°
Texas	13.12	2	11.01	2	7.96	2	32.10	2	6.1	24
Utah	1.64	31	0.98	33	0.60	36	3.21	31	7.3	14
Vt.	0.32	47	0.50	41	0.18	51	1.00	45	7.5	12
Va.	12.57	3	3.26	13	2.17	14	18.00	6	11.6	1
Wash.	6.12	8	3.08	15	1.45	22	10.64	13	10.0	4
W. Va.	4.00	44	1.02	32	0.63	35	2.05	39	4.7	38°
Wis.	1.48	33	2.14	23	2.06	17	5.68	25	4.1	49°
Wyo.	0.18	51	0.28	46	0.25	49	0.72	50	4.4	43°
U.S. total	$200.90		$136.00		$97.25		$434.14			

C15. Federal Expenditures by State[a]

Fiscal Year 1984

State	Amount (millions)					Per capita	
	Total[b]	Grants to state and local governments	Salaries and wages	Direct payments to individuals	Procurement[c]	Amount	State ranking
Total	$724,749	$97,209	$108,653	$325,881	$176,470	$3,022	–
Alabama	11,444	1,532	2,257	5,829	1,649	2,868	27
Alaska	2,322	616	782	326	581	4,642	1
Arizona	9,174	990	1,408	4,432	2,221	3,005	18
Arkansas	6,088	946	702	3,475	795	2,592	34
California	91,713	9,799	13,461	32,694	34,178	3,579	9
Colorado	9,165	1,176	2,053	3,609	2,095	2,884	25
Connecticut	12,791	1,221	870	4,199	5,968	4,055	7
Delaware	1,635	299	232	824	247	2,668	32
Florida	33,224	2,784	4,214	20,722	5,292	3,027	16
Georgia	15,915	2,214	3,298	6,964	3,267	2,726	28
Hawaii	4,232	459	1,809	1,321	577	4,073	5
Idaho	2,497	413	388	1,187	662	2,694	39
Illinois	25,506	4,304	3,557	14,718	2,437	2,216	48
Indiana	13,037	1,760	1,277	7,078	2,705	2,371	45
Iowa	6,332	1,091	552	3,896	557	2,176	50
Kansas	8,158	805	1,099	3,426	2,488	3,346	11
Kentucky	9,369	1,590	1,614	5,029	985	2,517	38
Louisiana	10,693	1,776	1,317	4,989	2,452	2,396	43
Maine	3,341	590	409	1,730	577	2,891	22
Maryland	18,783	1,697	4,523	6,464	5,592	4,319	2
Massachusetts	21,422	2,634	1,836	8,685	7,571	3,695	8
Michigan	20,297	3,776	1,743	11,719	2,798	2,237	47
Minnesota	10,591	1,865	900	5,038	2,259	2,545	37
Mississippi	8,278	1,176	1,043	3,529	2,410	3,187	13
Missouri	20,335	1,775	2,144	7,301	7,366	4,060	6
Montana	2,377	532	394	1,088	164	2,884	24
Nebraska	4,119	637	710	2,179	365	2,565	35
Nevada	2,807	340	461	1,182	799	3,081	15
New Hampshire	2,904	368	489	1,304	710	2,971	19
New Jersey	20,433	2,871	2,430	10,710	4,172	2,719	30
New Mexico	6,131	863	1,028	1,799	2,358	4,306	3
New York	53,298	10,268	4,708	26,191	10,979	3,005	17
North Carolina	13,626	1,929	2,887	7,439	1,140	2,210	49
North Dakota	2,276	454	418	861	241	3,317	12
Ohio	25,670	4,044	2,897	14,160	4,252	2,388	44
Oklahoma	8,404	1,167	1,827	4,398	718	2,549	36
Oregon	6,545	1,246	814	3,913	423	2,448	42
Pennsylvania	32,413	4,667	3,758	18,953	4,401	2,724	29
Rhode Island	2,982	548	376	1,566	435	3,099	14
South Carolina	8,947	1,169	2,003	4,059	1,610	2,711	31
South Dakota	2,056	436	366	973	130	2,912	21
Tennessee	13,610	1,885	1,940	6,250	3,373	2,885	23
Texas	39,275	4,136	6,634	17,458	10,220	2,456	41
Utah	4,860	708	1,861	1,586	1,383	2,930	20
Vermont	1,396	331	137	704	195	2,631	33
Virginia	24,251	1,628	7,706	8,317	6,013	4,303	4
Washington	14,812	1,698	2,668	5,955	4,216	3,406	10
West Virginia	4,825	819	449	3,264	236	2,472	40
Wisconsin	10,853	2,064	840	6,295	1,215	2,277	46
Wyoming	1,472	556	240	500	139	2,879	26
District of Columbia	12,866	1,382	7,185	1,395	1,809	20,652	–
Territories[d]	6,924	2,710	815	2,305	845	1,999	–
Undistributed	18,297	465	4	1,491	16,330	–	–

[a] Because of accounting and timing differences, amounts in this table cannot be directly compared to outlays in the Federal *Budget*. Also, not included are amounts that could not be geographically allocated, such as net interest on the Federal debt, international aid, and others, as well as some amounts for which data were not available.

[b] Totals include expenditures on other programs not shown separately. For the entire United States and territories, this amounted to $16,536 million.

[c] Represents contract awards, not expenditures.

[d] Includes distributions to American Samoa, Guam, Northern Marianas, Puerto Rico, Trust Territory, and the Virgin Islands.

Source: Department of Commerce, Bureau of the Census.

Source: The Tax Foundation, Inc.
Facts and Figures on Government Finance

1986